

**REPORT BY THE  
STATE AUDITOR  
OF CALIFORNIA**

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**STATE OF CALIFORNIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 1992**

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**92001**

**DECEMBER 1993**

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**CALIFORNIA STATE AUDITOR**  
**BUREAU OF STATE AUDITS**

**KURT R. SJOBERG**  
State Auditor

**MARIANNE P. EVASHENK**  
Chief Deputy State Auditor

December 28, 1993

92001

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents the financial report of the State of California for the year ended June 30, 1992. This financial report includes a financial section with the State's general purpose financial statements presented on a basis in conformity with generally accepted accounting principles (GAAP) and a statistical section with important labor, income, and population statistics.

The financial statements show that the State's General Fund spent approximately \$3.3 billion more than it generated in revenues for the fiscal year ended June 30, 1992, and ended the fiscal year with a fund deficit of \$3.8 billion. The GAAP basis statements include all liabilities owed by the State while the budgetary basis statements that are used to report on the State's budget do not reflect all liabilities.

We conducted this audit to comply with the California Government Code, Section 8546.4.

Respectfully submitted,

**KURT R. SJOBERG**  
State Auditor

**REPORT BY THE  
STATE AUDITOR**

**92001**

**STATE OF CALIFORNIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 1992**

**DECEMBER 1993**

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## **FINANCIAL SECTION**



# CALIFORNIA STATE AUDITOR

## BUREAU OF STATE AUDITS

KURT R. SJOBERG  
State Auditor

MARIANNE P. EVASHENK  
Chief Deputy State Auditor

### Independent Auditors' Report

#### THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF CALIFORNIA

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1992, as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these statements based on our audit. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 78 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues, constituting 92 percent and 93 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. The financial statements of the pension trust funds, certain enterprise funds, and the University of California funds referred to above were audited by other auditors who furnished their reports to us, and our opinion, insofar as it relates to the amounts included for the pension trust funds, certain enterprise funds, and the University of California funds, is based solely upon the reports of other independent auditors.

We conducted our audit in accordance with government auditing standards issued by the Comptroller General of the United States and generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of California as of June 30, 1992, and the results of its operations and the cash flows of its proprietary funds for the year then ended, in conformity with generally accepted accounting principles.

We have not audited the data included in the statistical section in this report, and accordingly, we express no opinion on that data. Reports in accordance with government auditing standards on the State's internal control structure and on compliance are issued under separate cover in our single audit report.

BUREAU OF STATE AUDITS

*Sally L. Filliman*  
SALLY L. FILLIMAN, CPA  
Deputy State Auditor

November 19, 1993

**GENERAL PURPOSE FINANCIAL STATEMENTS**

**STATE OF CALIFORNIA**  
**COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUPS**  
**As of June 30, 1992**  
**(In Thousands)**

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>University of California</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<b>ASSETS</b>									
Cash and pooled investments.....	\$ 203,662	\$ 1,760,968	\$ 477,188	\$ 3,896,201	\$ 14,543	\$ 11,951,628			\$ 2,759,173
Investments.....				8,851,700		95,757,571			17,968,760
Amount on deposit with U.S. Treasury.....						3,553,490			
Receivables (net).....	172,378	287,324	524	382,897	2,581	6,345,711			1,369,180
Due from other funds.....	3,669,466	4,410,988	222,569	612,185	252,915	6,342,253			347,934
Due from other governments.....	47,313	2,682,974		68,628	7,283	114,489			50,549
Prepaid expenses.....	181,411	194,756		15,509	5,073	25,344			
Inventory, at cost .....				15,399	54,613				98,007
Net investment in direct financing leases....				1,598,771					
Advances and loans receivable.....	133,856	593,014		6,533,004	30,675	228,435			19,658
Deferred charges.....				1,386,094					38,920
Fixed assets.....				4,992,657	267,978	10,786	\$11,671,501		9,807,868
Other assets.....	730	32,253		432,226	8,652	40,616			278,438
Amount to be provided for retirement of long-term obligations.....								\$15,201,558	
Total Assets .....	<u>\$ 4,408,816</u>	<u>\$ 9,962,277</u>	<u>\$ 700,281</u>	<u>\$ 28,785,271</u>	<u>\$ 644,313</u>	<u>\$124,370,323</u>	<u>\$11,671,501</u>	<u>\$ 15,201,558</u>	<u>\$ 32,738,487</u>
<b>LIABILITIES AND FUND EQUITY</b>									
Liabilities									
Accounts payable.....	\$ 562,601	\$ 702,551	\$ 76,858	\$ 295,677	\$ 31,588	\$ 3,529,400			\$ 1,314,748
Due to other funds.....	6,153,532	3,202,675	129,688	530,213	82,950	5,629,244			130,008
Due to other governments .....	671,512	1,119,532	2,217	117,455	1,341	10,631,745			
Dividends payable.....				68,400					
Advances from other funds.....		10,712	33,180	312,501	60,693	31,028			19,658
Tax overpayments.....						1,052,690			
Benefits payable .....				4,595,817		827,567			
Deposits.....	555	14,639		340,206	1,064	1,970,788			238,481
Contracts and notes payable .....	475,000			1,781	65,012				
Lottery prizes and annuities.....				1,643,855					
Compensated absences payable.....	89,432			17,915	31,793		\$ 717,711		226,609
Mortgages and other borrowings.....									835,737
Net assets available for benefits.....									17,392,713
Capital lease obligations.....							1,623,052		361,930
Advance collections.....	17,343	62,499		1,001,463	55,950	44,746			
General obligation bonds payable.....				4,635,480			11,311,245		
Revenue bonds payable.....				9,669,168					1,490,307
Interest payable.....	228,830			321,641					
Other liabilities.....	43,186	51,290	415	46,139	2,573	868,161		1,549,550	
Total Liabilities .....	<u>8,241,991</u>	<u>5,163,898</u>	<u>242,358</u>	<u>23,597,711</u>	<u>344,693</u>	<u>24,585,369</u>		<u>15,201,558</u>	<u>22,010,191</u>
Fund Equity									
Contributed capital .....					211,000	100,636			
Investment in general fixed assets.....							\$11,671,501		7,567,510
Retained earnings									
Reserved for regulatory requirements.....					559,708				
Unreserved.....					4,416,852	198,984			
Fund balances									
Reserved for encumbrances.....	391,059	1,465,173	307,867						
Reserved for advances and loans.....	133,856	593,014					189,836		
Reserved for pension benefits .....							95,536,425		
Reserved for continuing appropriations.....	39,719	1,841,450	254,739						
Reserved for other specific purposes.....	226,050	88,757					4,058,693		1,641,351
Total Reserved .....	<u>790,684</u>	<u>3,988,394</u>	<u>562,606</u>				<u>99,784,954</u>		<u>1,641,351</u>
Unreserved									
Budgetary basis undesignated-available for appropriation (deficit) .....	(3,928,135)	(4,164,607)							
Budgetary to GAAP adjustments .....	(695,724)	4,974,592							1,519,435
Undesignated (deficit).....	(4,623,859)	809,985	(104,683)						
Total Fund Equity (Deficit).....	<u>(3,833,175)</u>	<u>4,798,379</u>	<u>457,923</u>	<u>5,187,560</u>	<u>299,620</u>	<u>99,784,954</u>	<u>11,671,501</u>		<u>10,728,296</u>
Total Liabilities and Fund Equity.....	<u>\$4,408,816</u>	<u>\$ 9,962,277</u>	<u>\$ 700,281</u>	<u>\$ 28,785,271</u>	<u>\$ 644,313</u>	<u>\$124,370,323</u>	<u>\$11,671,501</u>	<u>\$ 15,201,558</u>	<u>\$ 32,738,487</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**For the Fiscal Year Ended June 30, 1992**  
**(In Thousands)**

	<b>Governmental Fund Types</b>			<b>Fiduciary Fund Type</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	
<b>Revenues</b>				
Taxes.....	\$37,645,754	\$ 3,486,309		\$ 4,402,298
Intergovernmental .....		18,078,536		
Licenses and permits .....	171,594	2,438,140		
Natural resources.....	92,893	62	\$143,028	
Insurance premiums .....				591,939
Charges for services.....	288,037	225,269		8,810
Fees.....	177,163	1,118,259		92,554
Penalties.....	193,885	263,155		850
Interest.....	331,292	175,137	4,924	402,768
Other.....	250,758	287,470		192,696
<b>Total Revenues.....</b>	<b>39,151,376</b>	<b>26,072,337</b>	<b>147,952</b>	<b>5,691,915</b>
<b>Expenditures</b>				
Current				
General government.....	1,668,392	1,118,275		687,513
Education.....	22,706,897	2,853,859		351,978
Health and welfare .....	12,868,745	15,205,308		7,608,471
Resources.....	464,609	1,399,939		7,585
State and consumer services .....	281,640	343,249		9,426
Business and transportation.....	102,392	5,229,489		51,669
Correctional programs.....	2,715,269	285,580		
Property tax relief.....	828,212			
Capital outlay .....			795,344	1,514
Debt service				
Principal retirement .....	522,710			
Interest and fiscal charges .....	886,982	20,070	3,378	
<b>Total Expenditures .....</b>	<b>43,045,848</b>	<b>26,455,769</b>	<b>798,722</b>	<b>8,718,156</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from general obligation bonds...		3,488,500	609,500	
Operating transfers in.....	741,554	966,828	170,297	1,248,859
Operating transfers out .....	(192,227)	(2,611,833)	(113,057)	(78,282)
<b>Net Other Financing Sources (Uses)</b>	<b>549,327</b>	<b>1,843,495</b>	<b>666,740</b>	<b>1,170,577</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(3,345,145)	1,460,063	15,970	(1,855,664)
Net cumulative effect of change in accounting method on prior year.....	3,004,681			
Fund Balances (Deficit), July 1, 1991.....	(3,492,711)	3,338,316	441,953	6,104,193
<b>Fund Balances (Deficit), June 30, 1992 .....</b>	<b>\$3,833,175</b>	<b>\$ 4,798,379</b>	<b>\$457,923</b>	<b>\$ 4,248,529</b>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE—BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 1992**  
**(In Thousands)**

	<u>Budget</u>	<u>Actual</u>	<b>Variance— Favorable (Unfavorable)</b>
<b>Revenues</b>			
Taxes.....	\$40,071,749		
Licenses and permits .....	101,601		
Natural resources.....	92,588		
Charges for services.....	125,802		
Fees.....	180,959		
Penalties.....	195,162		
Interest .....	338,446		
Other.....	<u>226,055</u>		
<b>Total Revenues.....</b>	<b><u>41,332,362</u></b>		
<b>Expenditures</b>			
Current.....			
General government.....	\$ 1,808,019	1,762,582	\$ 45,437
Education.....	22,955,785	22,891,453	64,332
Health and welfare .....	14,119,445	13,744,296	375,149
Resources.....	493,716	474,067	19,649
State and consumer services .....	286,658	282,233	4,425
Business and transportation.....	138,706	136,663	2,043
Correctional programs.....	2,773,687	2,722,020	51,667
Property tax relief.....	855,113	834,392	20,721
Debt Service			
Principal retirement .....	518,962	518,962	
Interest and fiscal charges .....	<u>877,758</u>	<u>822,758</u>	<u>55,000</u>
<b>Total Expenditures.....</b>	<b><u>\$44,827,849</u></b>	<b><u>44,189,426</u></b>	<b><u>\$638,423</u></b>
<b>Other Financing Sources (Uses)</b>			
Operating transfers in.....	755,144		
Operating transfers out .....	(246,624)		
Other additions.....	<u>134,718</u>		
<b>Net Other Financing Sources (Uses)....</b>	<b><u>643,238</u></b>		
<b>Excess of Revenues and Other Sources</b>			
Over (Under) Expenditures and Other Uses	(2,213,826)		
<b>Fund Balance (Deficit), July 1, 1991, as restated.....</b>	<u>(1,093,181)</u>		
<b>Fund Balance (Deficit), June 30, 1992 .....</b>	<b><u>\$(3,307,007)</u></b>		

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE—BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended June 30, 1992**  
**(In Thousands)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance— Favorable (Unfavorable)</u>
<b>Revenues</b>			
Taxes.....	\$ 658,964		
Intergovernmental .....	18,099,175		
Licenses and permits .....	2,438,140		
Natural resources.....	62		
Charges for services.....	220,112		
Fees.....	1,118,259		
Penalties.....	263,155		
Interest.....	175,750		
Other.....	<u>331,934</u>		
<b>Total Revenues.....</b>	<b><u>23,305,551</u></b>		
<b>Expenditures</b>			
<b>Current</b>			
General government.....	\$ 1,160,682	1,118,275	\$ 42,407
Education.....	2,491,082	2,286,855	204,227
Health and welfare .....	16,735,971	16,280,469	455,502
Resources.....	1,571,158	1,462,536	108,622
State and consumer services .....	350,794	343,253	7,541
Business and transportation.....	5,313,355	4,925,801	387,554
Correctional programs.....	<u>288,602</u>	<u>285,582</u>	<u>3,020</u>
<b>Total Expenditures .....</b>	<b><u>\$27,911,644</u></b>	<b><u>26,702,771</u></b>	<b><u>\$1,208,873</u></b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from general obligation bonds...	3,488,500		
Operating transfers in.....	12,430,635		
Operating transfers out .....	<u>(10,220,960)</u>		
<b>Net Other Financing Sources (Uses)....</b>	<b><u>5,698,175</u></b>		
<b>Excess of Revenues and Other Sources</b>			
Over (Under) Expenditures and Other Uses	2,300,955		
<b>Fund Balances , July 1, 1991, as restated.....</b>	<b><u>2,491,694</u></b>		
<b>Fund Balances, June 30, 1992 .....</b>	<b><u>\$ 4,792,649</u></b>		

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN RETAINED EARNINGS/FUND BALANCES**  
**ALL PROPRIETARY FUND TYPES AND PENSION TRUST FUNDS**  
**For the Fiscal Year Ended June 30, 1992**  
**(In Thousands)**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>
<b>Operating Revenues</b>			
Lottery ticket sales.....	\$1,358,651		
Services and sales.....	959,544	<u>\$878,635</u>	
Earned premiums (net).....	1,897,748		
Investment and interest.....	803,328		\$ 8,290,888
Contributions.....			4,100,375
Rent .....	139,965		
Other.....	37,785		<u>13,450</u>
<b>Total Operating Revenues .....</b>	<u>5,197,021</u>	<u>878,635</u>	<u>12,404,713</u>
<b>Operating Expenses</b>			
Lottery prizes .....	669,199		
Personal services .....	253,378	437,880	50,316
Supplies.....	37,403	11,901	
Services and charges.....	752,297	382,018	115,846
Depreciation.....	79,587	53,624	
Benefit payments .....	1,976,548		4,603,628
Interest expense.....	669,580	139	
Refunds .....			186,741
Accrual of deferred charges .....	(16,765)		
<b>Total Operating Expenses.....</b>	<u>4,421,227</u>	<u>885,562</u>	<u>4,956,531</u>
<b>Operating Income (Loss) .....</b>	<u>775,794</u>	<u>(6,927)</u>	<u>7,448,182</u>
<b>Nonoperating Revenues (Expenses)</b>			
Grants received.....	1,251		
Grants provided.....	(27,095)		
Interest revenue .....	623,125	1,576	
Interest expense and fiscal charges .....	(301,487)	(7,034)	
Loss on early extinguishment of debt .....	(56,315)		
Other .....	<u>3,837</u>	<u>(2,753)</u>	
<b>Net Nonoperating Revenues (Expenses) .....</b>	<u>243,316</u>	<u>(8,211)</u>	
<b>Operating transfers in.....</b>	58,726	14,308	
<b>Operating transfers out .....</b>	<u>(172,171)</u>	<u>(7,304)</u>	
<b>Operating Transfers .....</b>	<u>(113,445)</u>	<u>7,004</u>	
<b>Net Income (Loss).....</b>	<u>905,665</u>	<u>(8,134)</u>	<u>7,448,182</u>
Dividends paid .....	(282,227)		
Lottery payments for education.....	(464,873)		
<b>Retained Earnings/Fund Balances, July 1, 1991</b>	<u>4,817,995</u>	<u>207,118</u>	<u>88,088,243</u>
<b>Retained Earnings/Fund Balances, June 30, 1992</b>	<u>\$4,976,560</u>	<u>\$198,984</u>	<u>\$95,536,425</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**For the Fiscal Year Ended June 30, 1992**  
**(In Thousands)**

	<b>Proprietary Fund Types</b>	
	<b>Internal Enterprise</b>	<b>Service</b>
<b>Cash Flows From Operating Activities</b>		
Operating income (loss).....	\$ 775,794	\$ (6,927)
Adjustments to reconcile operating income (loss) with net cash provided by (used in) operating activities		
Interest expense on operating debt .....	669,580	
Interest on investments .....	(246,064)	
Depreciation .....	79,587	53,624
Deferred charges from water projects .....	(23,680)	
Accretion of capital appreciation bonds.....	(1,387)	
Provisions and allowances .....	6,352	
Accrual of deferred credits.....	7,242	
Amortization of discounts.....	17,156	
Other .....	1,278	2,689
Change in assets and liabilities		
Change in receivables.....	20,252	(761)
Change in due from other funds .....	(190,713)	(14,397)
Change in due from other governments .....	(9,438)	11,410
Change in prepaid expenses .....	(4,812)	415
Change in inventory .....	(781)	2,431
Change in net investment in direct financing leases.....	(255,330)	
Change in advances and loans receivable .....	227,113	(7,753)
Change in other assets.....	(132,245)	(441)
Change in accounts payable.....	15,520	(31,808)
Change in due to other funds.....	183,696	37,300
Change in due to other governments.....	20,684	1,112
Change in lottery prizes and annuities.....	57,043	
Change in benefits payable.....	489,135	
Change in deposits .....	109,996	310
Change in compensated absences payable.....	3,720	7,583
Change in advance collections.....	(11,004)	11,641
Change in other liabilities .....	<u>6,689</u>	<u>765</u>
Total adjustments.....	<u>529,525</u>	<u>17,807</u>
Net Cash Provided by (Used in) Operating Activities .....	<u>1,815,383</u>	<u>67,193</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Dividends paid .....	(282,827)	
Return of advances from other funds.....	(3,471)	(1,904)
Proceeds from notes.....		2,915
Proceeds from general obligation bonds.....	50,000	
Proceeds from revenue bonds.....	792,394	
Retirement of general obligation bonds.....	(228,100)	
Retirement of revenue bonds.....	(816,992)	
Interest paid on operating debt.....	(694,794)	(2,145)
Operating transfers in.....	52,957	14,308
Operating transfers out.....	(168,788)	(7,304)
Grants provided.....	(27,095)	
Grants received.....	1,251	

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**For the Fiscal Year Ended June 30, 1992**  
**(In Thousands)**

	<u>Proprietary Fund Types</u>	
	<u>Enterprise</u>	<u>Internal Service</u>
Other revenue (expenses).....	(231)	(958)
Lottery payments for education.....	<u>(640,109)</u>	
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(1,965,805)</u>	<u>4,912</u>
 <b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of fixed assets .....	(362,398)	(45,619)
Proceeds from sale of fixed assets .....	126,908	4,022
Unamortized water project costs .....	(140,647)	
Advances from other funds .....	328,340	
Return of advances from other funds.....	(509,400)	
Principal paid on notes payable.....	(2,283)	(21,945)
Payment of capital lease obligations.....	9,000	(382)
Proceeds from general obligation bonds.....	1,795,402	
Proceeds from revenue bonds.....	(30,815)	
Retirement of general obligation bonds.....	(778,878)	
Retirement of revenue bonds.....	(315,635)	(4,889)
Interest paid .....	1,057	1,650
Contributed capital .....	5,769	
Operating transfers in.....	(3,383)	
Operating transfers out .....	(1,795)	
Net Cash Provided by (Used in) Capital and Related Financing Activities .....	<u>123,037</u>	<u>(68,958)</u>
 <b>Cash Flows From Investing Activities</b>		
Purchase of investments.....	(796,587)	
Advances and loans provided.....	(339,145)	(7,800)
Collection of advances and loans .....	303,592	
Proceeds from maturity and sale of investments.....	291,132	
Interest and gains on investments .....	872,187	1,576
Net Cash Provided by (Used in) Investing Activities.....	<u>331,179</u>	<u>(6,224)</u>
Net Increase (Decrease) in Cash and Pooled Investments .....	303,794	(3,077)
Cash and Pooled Investments at July 1, 1991 .....	<u>3,592,407</u>	<u>17,620</u>
Cash and Pooled Investments at June 30, 1992.....	<u>\$3,896,201</u>	<u>\$ 14,543</u>
 <b>Noncash Transactions</b>		
Noncash transactions are those portions of investing and financing activities that affected assets and liabilities but did not result in cash receipts or payments during the period. The following noncash transactions occurred during the year. Internal service funds made installment purchases totaling \$45.6 million to acquire equipment and software.		

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA  
COMBINED BALANCE SHEET  
UNIVERSITY OF CALIFORNIA FUNDS**  
**As of June 30, 1992**  
**(In Thousands)**

	<b>Current Funds</b>	<b>Loan Funds</b>	<b>Endowment &amp; Similar Funds</b>	<b>Plant Funds</b>	<b>Retirement System Funds</b>	<b>Total Funds</b>
<b>ASSETS</b>						
Cash and pooled investments.....	\$1,497,453	\$ 45,971	\$ 152,864	\$ 1,020,113	\$ 42,772	\$ 2,759,173
Investments .....			901,425		17,067,335	17,968,760
Receivables (net) .....	764,518	250,156	17,828		336,678	1,369,180
Due from other funds .....	217,926				130,008	347,934
Due from other governments .....	50,549					50,549
Inventory, at cost.....	98,007					98,007
Advances and loans receivable .....	1,921		17,737			19,658
Deferred charges .....	38,920					38,920
Fixed Assets .....				9,807,868		9,807,868
Other Assets.....	262,867			15,571		278,438
<b>Total Assets.....</b>	<b>\$2,932,161</b>	<b>\$296,127</b>	<b>\$1,089,854</b>	<b>\$10,843,552</b>	<b>\$17,576,793</b>	<b>\$32,738,487</b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities</b>						
Accounts payable.....	\$1,054,948		\$ 20,335	\$ 57,661	\$ 181,804	\$ 1,314,748
Due to other funds.....	127,732				2,276	130,008
Advances from other funds .....		\$ 2,000		17,658		19,658
Deposits .....	136,675		101,806			238,481
Compensated absences .....	226,609					226,609
Mortgages and other borrowings ..				835,737		835,737
Net assets available for benefits ....					17,392,713	17,392,713
Capital lease obligations.....				361,930		361,930
Revenue bonds payable.....				1,443,590		1,443,590
<b>Total Liabilities .....</b>	<b>1,545,964</b>	<b>46,717</b>	<b>122,141</b>	<b>2,716,576</b>	<b>\$17,576,793</b>	<b>\$22,010,191</b>
<b>Fund Equity</b>						
Investment in general fixed assets				7,567,510		7,567,510
<b>Fund balances</b>						
Reserved for other specific purposes .....	455,920	200,172	667,563	317,696		1,641,351
Undesignated .....	930,277	47,238	300,150	241,770		1,519,435
<b>Total Fund Equity .....</b>	<b>1,386,197</b>	<b>247,410</b>	<b>967,713</b>	<b>8,126,976</b>		<b>10,728,296</b>
<b>Total Liabilities and Fund Equity .....</b>	<b>\$2,932,161</b>	<b>\$296,127</b>	<b>\$1,089,854</b>	<b>\$10,843,552</b>	<b>\$17,576,793</b>	<b>\$32,738,487</b>

**STATE OF CALIFORNIA  
COMBINED STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
UNIVERSITY OF CALIFORNIA CURRENT FUNDS  
For the Fiscal Year Ended June 30, 1992  
(In Thousands)**

<b>Revenues and Other Additions</b>	
Tuition and fees.....	\$ 638,076
Federal appropriations, grants, and contracts.....	1,106,644
State appropriations, grants, and contracts.....	2,231,108
Private gifts, grants, and contracts .....	359,419
<b>Sales and services</b>	
Educational activities .....	545,930
Auxiliary enterprises .....	486,355
Teaching hospitals .....	1,634,415
<b>Local government</b>	
Major Department of Energy laboratories .....	60,980
Other .....	2,410,498
Total Revenues and Other Additions .....	<u>382,974</u>
	<u>9,856,399</u>
<b>Expenditures and Other Deductions</b>	
Instruction .....	1,635,934
Research.....	1,262,528
Public services .....	148,264
Academic support.....	641,826
Teaching hospitals.....	1,539,038
Student services.....	229,470
Institutional support.....	394,345
Operation and maintenance of plant .....	268,425
Student financial aid.....	273,503
Auxiliary enterprises.....	398,711
Major Department of Energy laboratories .....	2,397,560
Other .....	<u>16,287</u>
Total Expenditures and Other Deductions.....	<u>9,205,891</u>
<b>Other Financing Uses</b>	
Transfers out .....	(378,837)
Net Increase in Fund Balance .....	<u>271,671</u>
<b>Fund Balances, July 1, 1991.....</b>	1,299,008
Net cumulative effect of change in accounting method on prior year .....	(184,482)
Beginning fund balance, as adjusted.....	<u>1,114,526</u>
Fund Balances, June 30, 1992 .....	<u>\$1,386,197</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF CHANGES IN FUND BALANCES**  
**UNIVERSITY OF CALIFORNIA FUNDS**  
**For the Fiscal Year Ended June 30, 1992**  
**(In Thousands)**

	<u>Current Funds</u>	<u>Loan Funds</u>	<u>Endowment &amp; Similar Funds</u>	<u>Plant Funds</u>
<b>Revenues and Other Additions</b>				
Unrestricted current fund revenues				
General .....	\$ 3,442,823			
Auxiliary enterprises and hospitals	2,120,770			
Restricted gifts, grants, and contracts	3,909,832	\$ 711	\$ 32,299	\$ 57,787
Investment and interest income .....	176,160	8,055	738	35,693
Net gain (loss) on sale of investments	1,374		23,801	7,927
Governmental grants and contracts...		3,634		1,291
Student fees for debt service.....				8,602
Governmental appropriations .....				110,801
Expended for plant facilities (including \$315,067 financed from current funds).....				563,666
Retirement of indebtedness .....				107,523
Other .....	205,440	4,363	1,729	9,145
Total Revenues and Other Additions .....	<u>9,856,399</u>	<u>16,763</u>	<u>58,567</u>	<u>902,435</u>
<b>Expenditures and Other Deductions</b>				
Current fund expenditures .....	9,189,604			
Plant fund expenditures .....				267,559
Debt service				
Principal retirement .....				107,523
Interest.....				127,103
Disposals of plant assets .....				138,701
Other .....	16,287	6,841	3,972	13,196
Total Expenditures and Other Deductions .....	<u>9,205,891</u>	<u>6,841</u>	<u>3,972</u>	<u>654,082</u>
Transfers in (out) .....	(378,837)	448	8,045	370,344
Net Increase in Fund Balances	<u>271,671</u>	<u>10,370</u>	<u>62,640</u>	<u>618,697</u>
Fund Balances, July 1, 1991.....	1,299,008	237,040	905,073	7,508,279
Net cumulative effect of change in accounting method on prior year.....	(184,482)			
Beginning fund balances, as adjusted ...	<u>1,114,526</u>	<u>237,040</u>	<u>905,073</u>	<u>7,508,279</u>
Fund Balances, June 30, 1992 .....	<u>\$ 1,386,197</u>	<u>\$ 247,410</u>	<u>\$ 967,713</u>	<u>\$ 8,126,976</u>

See the notes accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. Definition of the Reporting Entity**

The general purpose financial statements present information on the financial activities of the State of California over which the governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. The financial statements include accounts of various boards, commissions, agencies, authorities, retirement systems, the workers' compensation insurance fund, and the State's public universities.

### **2. Summary of Significant Accounting Policies**

#### **A. Basis of Presentation**

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1992. Except for the University of California and the State Compensation Insurance Fund, as explained below, the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. The financial statements of the University of California have been prepared in conformity with GAAP as prescribed by the National Association of College and University Business Officers and by the Governmental Accounting Standards Board.

The University of California receives an annual appropriation from the State's General Fund. For the year ended June 30, 1992, approximately \$2.0 billion was accrued or disbursed from the General Fund to the University of California. This amount is reported as expenditures in the General Fund and as revenues in the University of California funds. Since this amount originally came from General Fund revenues and was ultimately spent in the University of California funds, revenues and expenditures in the amount of \$2.0 billion are reported twice in the accompanying financial statements.

The financial statements of the State Compensation Insurance Fund have been prepared in conformity with accounting practices prescribed or permitted by the Department of Insurance of the State of California. These accounting practices represent a comprehensive basis of accounting other than GAAP. The financial statements of the State Compensation Insurance Fund, included in the State's general purpose financial statements, are as of and for the year ended December 31, 1991. The State Compensation Insurance Fund represents 20.7 percent and 39.9 percent, respectively, of the assets and revenues of the enterprise funds.

#### **B. Fund Accounting**

The financial activities of the State accounted for in the accompanying financial statements have been classified as follows:

### *Governmental Fund Types*

The governmental fund types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types:

*The General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

*Special Revenue Funds* account for transactions related to resources obtained from specific revenue sources (other than for expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

*Capital Projects Funds* account for transactions related to resources obtained and used to acquire or construct major capital facilities.

### *Proprietary Fund Types*

The proprietary fund types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided. The proprietary fund types are as follows:

*Enterprise Funds* account for goods or services provided to the general public on a continuing basis either when the State intends that all or most of the cost involved is to be financed by user charges or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

*Internal Service Funds* account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis.

### *Fiduciary Fund Types*

The fiduciary fund types are used to account for assets held by the State, which acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The fiduciary fund types are as follows:

*Expendable Trust Funds* account for assets held in a trustee capacity when both principal and income may be expended in the course of a fund's designated operations.

*Pension Trust Funds* account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems.

*Agency Funds* account for assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

*General Fixed Assets Account Group*

This account group records those governmental fixed assets not reported in a proprietary fund or a trust fund.

*General Long-Term Obligations Account Group*

This account group records unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

*University of California*

The University of California uses the following types of funds to account for its activities:

*Current Funds* account for unrestricted funds that are expendable in pursuing the objectives of the University of California, over which the Regents of the University of California retain control, and for externally restricted funds that may be used only in accordance with specified purposes.

*Loan Funds* account for resources available primarily for loans to students and faculty.

*Endowment and Similar Funds*—Endowment funds are invested in perpetuity, and the income is used in accordance with restrictions imposed by donors. Funds functioning as endowments are established by the Regents of the University of California; the principal is maintained while the income may be expended.

*Plant Funds* account for resources available to acquire properties, to service the debt related to properties, to provide for the renewal and replacement of properties, and to account for funds invested in properties. Fixed assets of major laboratories of the United States Department of Energy are federally owned and are not included in the plant funds.

*Retirement System Funds* account for assets and liabilities of the University of California Retirement System. Certain employees of the University of California are members of the Public Employees' Retirement System.

C. *Basis of Accounting*

*Governmental Fund Types,  
Expendable Trust Funds, and Agency Funds*

The accounts of the governmental fund types and expendable trust funds are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Tax revenues are recorded by the State as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

The State's accounting practices include an exception to the modified accrual basis of accounting with respect to vacation-leave expenditures. These expenditures are recorded when paid because no satisfactory basis exists for determining the current liability. However, the liability for earned leave of academic-year faculty of the California State University and the special schools of the California State Department of Education is accrued at June 30, as explained in Note 10.

Agency funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the modified accrual basis of accounting.

*Proprietary Fund Types and Pension Trust Funds*

The accounts of these fund types are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Lottery revenue and the related prize expense are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the statement of cash flows, the State considers all cash and pooled investments in the State's pooled investment program, as discussed in Note 4, to be cash equivalents.

*University of California*

The University of California funds are accounted for on the accrual basis of accounting except for depreciation, which is recorded only on the investments of endowment and similar funds in real estate. Certain other immaterial accruals are omitted.

## D. *Fixed Assets*

### *General Fixed Assets Account Group*

General fixed assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, public domain or "infrastructure" fixed assets are not capitalized. Accumulated depreciation is not recorded in the general fixed assets account group.

### *Proprietary Fund Types*

Fixed assets, consisting of property, plant, and equipment, are stated either at cost or at fair market value at the date of acquisition, less accumulated depreciation. See Note 9. They are depreciated over their estimated useful lives ranging from 3 to 100 years using the straight-line method of depreciation. Water projects, which represent 55.8 percent of the fixed assets of the enterprise funds, are depreciated over their service lives ranging from 30 to 100 years. Toll bridge and California State University dormitory facilities, which represent 17.0 percent and 11.0 percent, respectively, of the fixed assets of the enterprise funds, are not depreciated.

### *Fiduciary Fund Types*

Equipment in the pension trust funds is recorded at cost. The fixed assets are not depreciated.

### *University of California*

Plant and equipment assets are recorded at cost if purchased. They are recorded at fair market value at the date of acquisition if donated. The fixed assets of the plant funds are not depreciated.

## E. *Budgetary Accounting*

The State's annual budget is prepared on a modified accrual basis. The governor recommends a budget for approval by the Legislature each fiscal year. Under state law, the State cannot adopt a spending plan that exceeds anticipated revenues.

Under the state constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the budget act, as approved by the Legislature and signed by the governor, are the primary sources of annual expenditure authorizations. The budget can be amended throughout the year by special legislative appropriations, budget revisions, or executive orders. Amendments to the initial budget for fiscal year 1991-92 were legally made, and they are included in the budget data in the accompanying financial statements.

Appropriations are generally available for expenditure or encumbrance either in the fiscal year appropriated or for a period of three years if the legislation does not specify a period of availability. Some appropriations continue indefinitely and are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period when the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall control of appropriations.

### **3. Budgetary Basis Financial Statements**

#### **A. *Budgeted Revenues***

In the annual budgeting process, the governor estimates revenues. However, revenues are not included in the budget adopted by the Legislature.

#### **B. *General Fund Reconciliation of Budgetary Basis With GAAP Basis***

The State annually reports its financial condition based on GAAP (GAAP basis) and also based on the State's budgetary provisions (budgetary basis). The State of California Annual Report (the budgetary basis financial report) is prepared in accordance with statutory and regulatory requirements and is used for reporting on the execution of the State's budget. The accounting records of state agencies are maintained on the budgetary basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the budgetary basis financial report is prepared, adjustments are made to prepare the GAAP basis financial statements.

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual (Budgetary Basis) is compiled on the budgetary basis. This statement is reconciled with the general purpose financial statements prepared in accordance with GAAP as shown below. The primary differences between the budgetary basis accounting practices and GAAP are as follows:

#### ***Medi-Cal Program Liability***

In previous years, Medi-Cal (California Medical Assistance Program) expenditures were, by law, accounted for on a cash basis. They were reported on the accrual basis in accordance with GAAP. This year the budgetary basis method of accounting for Medi-Cal expenditures was changed to conform with GAAP.

### *Advances and Loans Receivable*

Loans made to other funds or to other governments are recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets.

### *Restatement of Fund Balance*

On July 1, 1991, the State changed its method of accounting for tax revenues, as discussed in Note 17. The cumulative effect of this change is shown on the line titled net cumulative effect of change in accounting method on prior year.

In addition, the beginning fund balance of the General Fund on the budgetary basis is adjusted to reflect the difference between the net expenditures and revenues that were accrued the previous June 30 and the amount of actual revenues and net expenditures that were subsequently realized. The beginning fund balance on the GAAP basis is not affected by these adjustments.

### *Other*

Other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The following adjustments caused a net increase to the deficit in the fund balance of \$660 million. Receivables related to tax revenues were overstated by approximately \$505 million because tax collections were less than originally estimated. The liability totaling \$89 million for earned leave of academic-year faculty of the California State University and the special schools of the California Department of Education was not accrued on the budgetary basis because the funds to pay this liability were budgeted in the 1992-93 appropriation. Also, a liability of \$55 million for interest on loans from the Pooled Money Investment Account was not accrued although an appropriation was available. Further, the Department of Corrections had liabilities totaling \$32 million which were not included on the budgetary basis because no money remained in the appropriation to pay for them. Certain other adjustments totaling \$62 million were also not accrued on the budgetary basis, mainly because no money was available from existing appropriations to pay them. In addition, certain liabilities were overstated causing an \$83 million decrease to the deficit in the fund balance.

**STATE OF CALIFORNIA**  
**GENERAL FUND**  
**RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS**  
**As of and for the Year Ended June 30, 1992**  
**(In Thousands)**

		Adjustments to the Budgetary Basis				
	Budgetary Basis	Medi-Cal Program Liability	Advances and Loans Receivable	Restatement of Fund Balance	Other	GAAP Basis
<b>ASSETS</b>						
Cash and pooled investments.....	\$ 203,662					\$ 203,662
Receivables (net).....	172,378					172,378
Due from other funds.....	4,262,505					\$ (593,039) 3,669,466
Due from other governments.....	46,187					1,126 47,313
Prepaid expenses.....	181,411					181,411
Advances and loans receivable.....	2,851		\$ 133,856		(2,851)	133,856
Other assets.....	730					730
Total Assets.....	<u>\$ 4,869,724</u>		<u>\$ 133,856</u>		<u>\$ (594,764)</u>	<u>\$ 4,408,816</u>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities</b>						
Accounts payable.....	\$ 670,245					\$ (107,644) \$ 562,601
Due to other funds.....	6,094,441					59,091 6,153,532
Due to other governments.....	645,857					25,655 671,512
Deposits.....	555					555
Contracts and notes payable.....	475,000					475,000
Compensated absences payable.....						89,432 89,432
Advance collections.....	17,343					17,343
Interest payable.....	230,104					(1,274) 228,830
Other liabilities.....	43,186					43,186
Total Liabilities.....	<u>8,176,731</u>		<u>133,856</u>		<u>65,260</u>	<u>8,241,991</u>
<b>Fund Equity</b>						
Fund balances						
Reserved for encumbrances.....	410,359					(19,300) 391,059
Reserved for advances and loans.....			\$ 133,856			133,856
Reserved for continuing appropriations.....	39,719					39,719
Reserved for other specific purposes.....	171,050					55,000 226,050
Total Reserved.....	<u>621,128</u>		<u>133,856</u>		<u>35,700</u>	<u>790,684</u>
Unreserved						
Undesignated (deficit).....	(3,928,135)					(695,724) (4,623,859)
Total Fund Equity (Deficit).....	<u>(3,307,007)</u>		<u>133,856</u>		<u>(660,024)</u>	<u>(3,833,175)</u>
Total Liabilities and Fund Equity.....	<u>\$ 4,869,724</u>		<u>\$ 133,856</u>		<u>\$ (594,764)</u>	<u>\$ 4,408,816</u>
<b>REVENUES</b>						
Taxes.....	\$ 40,071,749					\$ (571,813) \$ 37,645,754
Licenses and permits.....	101,601					171,594
Natural resources.....	92,588					92,893
Charges for services.....	125,802					17,280 288,037
Fees.....	180,959					(204) (3,592) 177,163
Penalties.....	195,162					(1,403) 126 193,885
Interest.....	338,446					687 (1,743) 331,292
Other.....	226,055					125 24,578 250,758
Total Revenues.....	<u>\$ 41,332,362</u>		<u>(6,098)</u>		<u>(1,837,405)</u>	<u>(337,483)</u> <u>39,151,376</u>
<b>EXPENDITURES</b>						
<b>Current</b>						
General government.....	1,762,582					(84,174) 1,668,392
Education.....	22,891,453					(4,576) 22,706,897
Health and welfare.....	13,744,296	\$ (712,151)	(61,464)			(74,647) (105,333) 12,868,745
Resources.....	474,067					(86,641) (15,295) 464,609
State and consumer services.....	282,233					(7,336) (2,122) 281,640
Business and transportation.....	136,663					(1,409) 263 (22,819) 102,392
Correctional programs.....	2,722,020					(11,715) (16,398) 10,083 2,715,269
Property tax relief.....	834,392					(436) 398 156 828,212
Debt service						
Principal retirement.....	518,962					3,748 522,710
Interest and fiscal charges.....	822,758					61,841 886,982
Total Expenditures.....	<u>44,189,426</u>	<u>(712,151)</u>	<u>(95,057)</u>		<u>(183,271)</u>	<u>(153,099)</u> <u>43,045,848</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in.....	755,144					101,667 741,554
Operating transfers out.....	(246,624)					57,702 (3,305) (192,227)
Other additions.....	134,718					(134,718) 0
Net Other Financing Sources (Uses).....	<u>643,238</u>		<u>(57,555)</u>			<u>(36,356)</u> <u>549,327</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(2,213,826)	712,151	31,404	(1,654,134)	(220,740)	(3,345,145)
Net cumulative effect of change in accounting method on prior year.....						
Fund Balance (Deficit), July 1, 1991, as restated.....	<u>(1,093,181)</u>	<u>(712,151)</u>	<u>102,452</u>	<u>(1,350,547)</u>	<u>(439,284)</u>	<u>(3,492,711)</u>
Fund Balance (Deficit), June 30, 1992.....	<u><u>\$ (3,307,007)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 133,856</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ (660,024)</u></u>	<u><u>\$ (3,833,175)</u></u>

**C. Special Revenue Funds Reconciliation of Budgetary Basis With GAAP Basis**

The primary differences between the budgetary basis accounting practices and GAAP for special revenue funds are as follows:

*Grant Commitments to Local Agencies*

Grants to local agencies are generally recorded as encumbrances on the budgetary basis when the commitments are made. However, in accordance with GAAP, these commitments are not reported as encumbrances. See Note 14.

*Encumbrances*

In addition to the difference in accounting for certain commitments as encumbrances as discussed above, the State does not record certain encumbrances on a budgetary basis that are recorded on a GAAP basis.

*Advances and Loans Receivable*

Loans made to other funds or to other governments are recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets.

*Other*

Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. These items include amounts designated for future highway construction, deposits for condemnation proceedings, liabilities for claims arising from lawsuits, and various miscellaneous items.

**RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS  
(In Thousands)**

Budgetary Basis Fund Balance .....	\$4,792,649
Grant commitments to local agencies.....	717,584
Encumbrances.....	(1,666,933)
Advances and loans receivable.....	593,014
Other .....	<u>362,065</u>
GAAP Basis Total Fund Equity.....	<u>\$4,798,379</u>

**D. Budgetary Basis Undesignated Fund Balance—Available for Appropriation**

The budgetary basis undesignated fund balance available for appropriation represents the amount of funding available to finance the State's budgetary plan for the next year. However, there was a deficit in this account as of June 30, 1992. Thus, there was no funding available from the current year to finance the fiscal year 1992-93 budgetary plan. The following schedule reconciles the budgetary basis fund balance with the budgetary basis undesignated—available for appropriation and the GAAP basis undesignated fund balance (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Budgetary Basis Fund Balance (Deficit).....	\$(3,307,007)	\$ 4,792,649
Reserved for encumbrances.....	(410,359)	(3,132,106)
Reserved for continuing appropriations.....	(39,719)	(5,825,150)
Reserved for other specific purposes .....	<u>(171,050)</u>	<u>                </u>
 Unreserved		
Budgetary basis undesignated—available for appropriation (deficit).....	<u>(3,928,135)</u>	<u>(4,164,607)</u>
 GAAP Basis Adjustments:		
Reserved for encumbrances.....	(19,300)	1,666,933
Reserved for continuing appropriations .....		3,983,700
Reserved for other specific purposes .....	55,000	(88,757)
Other .....	<u>(731,424)</u>	<u>(587,284)</u>
 GAAP Basis Undesignated (Deficit).....	<u><u>\$ (4,623,859)</u></u>	<u><u>\$ (809,985)</u></u>

**4. Cash and Pooled Investments, Investments, and Reverse Repurchase Agreements**

The State Treasurer's Office and the treasurer of the Regents of the University of California each administer a pooled investment program. These programs enable the treasurers to combine available cash from all funds within their respective systems and to invest cash that exceeds current needs. The enterprise funds, trust and agency funds, and University of California funds also have separate investments.

As of June 30, 1992, the average remaining life of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 11 months. The average remaining life of the securities in the pooled investment program administered by the treasurer of the Regents of the University of California was approximately 25 months. These securities are reported at cost if purchased and at market value at the date of acquisition if donated.

Further, the State Treasurer's Office has agreements with certain banks to maintain cash on deposit that does not earn interest income for the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts.

The following sections, A through C, relate to the activities of the State, excluding the University of California. Section D presents the investments of the University of California.

#### A. *Deposits*

All demand and time deposits, totaling approximately \$294 million, that were held by financial institutions at year end were insured by federal depository insurance or by collateral held by the State or by an agent of the State in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be deposited with the State Treasurer.

As of June 30, 1992, the State had amounts on deposit with fiscal agents totaling approximately \$14 million. These deposits, which were for principal and interest payments due to bond holders, are required by federal banking regulations to be collateralized.

#### B. *Investments*

State statutes, bond resolutions, and investment policy resolutions allow the State to invest in United States government securities, Canadian government securities, state and municipal securities, certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments.

All investments reported as of June 30, 1992, were insured or registered in the State's name or held by the State or an agent of the State in the State's name except for \$504 million in the enterprise funds and \$242 million in the trust and agency funds. These investments included uninsured and unregistered investments held by the trust department or the agent of another party to the transaction of which \$68 million are in the State's name and \$678 million are not in the State's name. The types of investments reported at year end are representative of the types of investments made during the fiscal year. Furthermore, the credit risk associated with the investments reported at year end is representative of the credit risk associated with investments made during the fiscal year.

The following table presents the carrying value and market value of the investments that were reported by the State on June 30, 1992 (in thousands):

	<u>Pooled Investments</u>		<u>Separately Invested Funds</u>		<u>Trust and Agency Funds</u>	
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>
U.S. government securities and U.S. government agency securities.....	\$ 8,485,855	\$ 8,832,036	\$5,123,732	\$5,639,106	\$ 5,648,433	\$ 6,119,262
Canadian government securities .....			70,502	113,751		
State and municipal securities .....			63,910	63,293		
Certificates of deposit.....	1,632,582	1,632,582	73	73	1,336,308	1,336,308
Bankers' acceptances.....	1,886,342	1,896,980	4,975	4,975		
Commercial paper.....	5,609,773	5,609,773	77,533	77,533	1,254,887	1,254,887
Corporate bonds.....	1,536,828	1,569,781	1,794,657	1,888,582	9,257,589	9,837,978
Mortgage loans and notes.....					11,232,456	12,297,601
Other debt securities .....			5,142	5,166	21,332,382	22,991,930
Repurchase agreements.....					151,500	151,500
Equity securities.....			2,976	3,003	34,525,656	45,414,739
Real estate.....					7,720,478	6,721,243
Investment agreements.....			1,556,258	1,556,258	18,559	18,559
Mutual funds.....					331,458	330,747
Other investments .....			151,942	151,942	2,947,865	2,947,240
<b>Total Investments ..</b>	<b>\$19,151,380</b>	<b>\$19,541,152</b>	<b>\$8,851,700</b>	<b>\$9,503,682</b>	<b>\$95,757,571</b>	<b>\$109,421,994</b>

The market values of the investments in certain certificates of deposit, bankers' acceptances, commercial paper, and repurchase agreements approximate their carrying values because of the short-term nature of those securities.

Included in the investments of the enterprise funds are the investments of the State Compensation Insurance Fund as of and for the year ended December 31, 1991. The State Compensation Insurance Fund represents 57 percent of the carrying value and 58 percent of the market value of the enterprise funds' investments.

#### C. *Reverse Repurchase Agreements*

The California Government Code allows the State to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract amount of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State or provide securities or cash of equal value, the State will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During fiscal year 1991-92, the State entered into 36 reverse repurchase agreements by

temporarily selling investments with a carrying value of approximately \$3.8 billion. At June 30, 1992, the State did not have any reverse repurchase agreements.

#### D. *Investments of the University of California*

As discussed in Note 2A, the financial statements of the University of California have been prepared in conformity with GAAP as prescribed by the National Association of College and University Business Officers and by the Governmental Accounting Standards Board. The investments of the endowment and similar funds and the investments of the pooled investment program are reported at cost if purchased. They are recorded at market value at the date of acquisition if donated. The investments of the University of California Retirement System Funds are reported at market value. As of June 30, 1992, the pooled and temporary investments had a carrying value of approximately \$2.7 billion, which approximates market value.

The following schedule presents the investments other than those of the pooled investment program as of June 30, 1992 (in thousands):

	<b>Endowment and Similar Funds</b>	<b>University of California Retirement System Funds</b>		
	<b>Carrying Value</b>	<b>Market Value</b>	<b>Carrying Value</b>	<b>Market Value</b>
Common stocks.....	\$497,930	\$1,031,349	\$ 5,507,229	\$10,584,859
Bonds .....	262,436	281,843	3,167,288	3,501,614
Bond substitutes.....	127,647	239,014	1,074,753	1,790,361
Mortgage loans and notes.....	4,392	4,127	1,474	1,359
Miscellaneous investments.....	3,232	3,232	1,189,142	1,189,142
Real estate.....	5,788			
Total Investments.....	<u>\$901,425</u>	<u>\$1,559,565</u>	<u>\$10,939,886</u>	<u>\$17,067,335</u>

## 5. General Fund Due From Other Funds and Due to Other Funds

The balances of due from other funds and due to other funds are shown in the following tables:

<u>Due From Other Funds</u>	<u>Amount (in Millions)</u>
Retail Sales Tax Fund .....	\$1,508.6
Personal Income Tax Fund.....	555.8
Federal Trust Fund .....	240.7
Health Care Deposit Fund.....	202.7
Welfare Advance Fund.....	123.0
Special Account for Capital Outlay .....	108.5
All Others.....	<u>930.2</u>
Total .....	<u>\$3,669.5</u>

<u>Due To Other Funds</u>	<u>Amount (in Millions)</u>
Pooled Money Investment Account Loans .....	\$3,156.7
Health Care Deposit Fund.....	931.2
Special Deposit Fund.....	174.6
Motor Vehicle License Fee Account .....	174.0
State Highway Account .....	173.5
Bank and Corporation Tax Fund.....	171.1
Federal Trust Fund .....	157.5
State School Fund .....	153.7
Public Employees Retirement Fund .....	48.0
All Others.....	<u>1,013.2</u>
Total .....	<u>\$6,153.5</u>

## 6. Restricted Assets

The following schedule presents a summary of the legal restrictions on assets of the enterprise funds and the purposes for which the assets were restricted as of June 30, 1992 (in thousands):

<u>Purpose</u>	<u>Cash and Pooled Investments</u>	<u>Due From Other Funds</u>	<u>Other Assets</u>
Debt service .....	\$1,404,692	\$ 1,160	
Construction .....	474,927	8,473	
Deposits .....	6,012		\$334,194
Equipment repair and replacement.....	78,972	2,332	
Operations .....	1,413		
<b>Total Restricted Assets.....</b>	<b>\$1,966,016</b>	<b>\$1,359,897</b>	<b>\$11,965</b>
			<b>\$334,194</b>

## 7. Net Investment in Direct Financing Leases

The State Public Works Board has entered into lease-purchase agreements with various state agencies and community colleges. See Note 14A. The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for the correctional and higher educational institutions and energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The minimum lease payments to be received are summarized below (in thousands):

<u>Year Ending June 30</u>	<u>State Agencies</u>	<u>Community Colleges</u>	<u>Total</u>
1993 .....	\$ 182,057	\$ 5,541	\$ 187,598
1994 .....	183,366	5,899	189,265
1995 .....	185,158	5,842	191,000
1996 .....	184,753	5,841	190,594
1997 .....	184,767	5,723	190,490
Thereafter .....	<u>2,070,987</u>	<u>74,113</u>	<u>2,145,100</u>
Total minimum lease payments.....	2,991,088	102,959	3,094,047
Less unearned income .....	<u>1,445,641</u>	<u>49,635</u>	<u>1,495,276</u>
Net investment in direct financing leases .....	<u>\$1,545,447</u>	<u>\$53,324</u>	<u>\$1,598,771</u>

## **8. Deferred Charges**

The deferred charges account in the enterprise fund type primarily represents operating and maintenance costs and unrecovered capital costs that will be recognized as expenses over the remaining life of long-term state water project contracts because these costs are billable in future years. In addition, the account includes imputed interest earnings on unrecovered capital and operating costs that are recorded as deferred charges until they are billed in future years under the terms of the state water project contracts.

## **9. Fixed Assets**

The following is a summary of changes in the general fixed asset account group for the year ended June 30, 1992 (in thousands):

	<u>Balance July 1, 1991</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1992</u>
Land .....	\$ 1,395,105	\$ 118,261	\$ 508	\$ 1,512,858
Structures and improvements .....	6,011,923	682,529	116,811	6,577,641
Equipment .....	2,112,160	278,420	85,045	2,305,535
Construction in progress .....	<u>1,214,412</u>	<u>331,965</u>	<u>270,910</u>	<u>1,275,467</u>
Total General Fixed Assets.....	<u><u>\$10,733,600</u></u>	<u><u>\$1,411,175</u></u>	<u><u>\$473,274</u></u>	<u><u>\$11,671,501</u></u>

The following schedule summarizes the fixed assets of the enterprise funds, internal service funds, pension trust funds, and the University of California as of June 30, 1992 (in thousands):

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>	<u>University of California</u>
State water projects.....	\$3,217,193			
Toll facilities .....	816,878			
Other land, improvements, buildings, and equipment .....	875,941	\$489,520	\$10,786	\$8,839,781
Construction in progress.....	<u>1,094,269</u>			<u>968,087</u>
Total Fixed Assets.....	6,004,281	489,520	10,786	9,807,868
Less accumulated depreciation.....	(1,011,624)	(221,542)		
Net Fixed Assets .....	<u>\$4,992,657</u>	<u>\$267,978</u>	<u>\$10,786</u>	<u>\$9,807,868</u>

## **10. Compensated Absences Payable**

As of June 30, 1992, the State's estimated liability for compensated absences related to accumulated vacation leave totaled to approximately \$1.1 billion. Of this amount, \$718 million is reported in the General Long-Term Obligations Account Group, \$50 million is reported in the proprietary fund types, \$227 million is reported in the University of California fund type, and \$89 million for earned leave compensation of academic-year faculty of the California State University and of the special schools of the State Department of Education is reported as a current liability in the State's General Fund. Accumulated sick-leave balances do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

## **11. General Obligation Bonds**

The state constitution permits the State to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the state constitution, the General Fund is used, first, to support the public school system and public institutions of higher education. The General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds reimburse the General Fund for the debt service provided on their behalf.

### **A. Changes in Bond Indebtedness**

The following schedule summarizes the changes in general obligation bond debt for the year ended June 30, 1992 (in thousands):

	<u>Balance July 1, 1991</u>			<u>Balance June 30, 1992</u>
		<u>Additions</u>	<u>Deductions</u>	
General long-term obligations .....	\$ 7,735,955	\$4,098,000	\$522,710	\$11,311,245
Enterprise funds .....	<u>4,835,395</u>	<u>59,000</u>	<u>258,915</u>	<u>4,635,480</u>
Total General Obligation Bonds .....	<u>\$12,571,350</u>	<u>\$4,157,000</u>	<u>\$781,625</u>	<u>\$15,946,725</u>

General obligation bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds in the accompanying financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

### **B. Bonds Outstanding and Bonds Authorized but Unissued**

The following schedule shows general obligation bonds outstanding and bonds authorized but unissued as of June 30, 1992 (in thousands):

	<u>Outstanding</u>	<u>Authorized but Unissued</u>
<b>General Long-Term Obligations</b>		
School Facilities.....	\$ 2,216,050	\$2,785,000
New Prison Construction .....	1,821,050	368,000
State School Building Lease-Purchase.....	1,370,825	
Higher Education Facilities .....	1,167,900	1,098,000
Passenger Rail and Clean Air.....	506,910	490,900
Clean Air and Transportation Improvement.....	462,700	1,527,300
Housing and Homeless.....	444,000	6,000
County Jail Capital Expenditure .....	399,675	
California Wildlife, Coastal, and Park Land Conservation...	397,200	366,000
County Correctional Facility Capital Expenditure .....	390,950	84,000
California Park and Recreational Facilities.....	282,550	43,000
Clean Water.....	280,600	160,000
County Correctional Facility		
Capital Expenditure and Youth Facility.....	261,850	231,000
California Safe Drinking Water .....	204,320	153,000
Clean Water and Water Conservation.....	189,200	15,000
California Earthquake Safety and Housing Rehabilitation ...	150,000	
California Parklands.....	144,500	12,000
State, Urban, and Coastal Park.....	101,475	14,000
Community Parklands .....	82,700	13,000
State Beach, Park, Recreational and Historical Facilities....	75,975	
Lake Tahoe Acquisitions.....	69,200	5,000
Fish and Wildlife Habitat Enhancement .....	59,500	13,000
Water Conservation and Water Quality .....	45,790	103,000
California Library Construction and Renovation.....	36,000	39,000
Health Science Facilities Construction Program.....	35,020	
Senior Center.....	35,000	
Community College Construction Program .....	23,250	
Earthquake Safety and Public Buildings Rehabilitation .....	13,000	287,000
State Higher Education Construction Program .....	12,000	
State Construction Program .....	11,000	
Clean Water and Water Reclamation .....	7,000	58,000
Recreation and Fish and Wildlife Enhancement.....	6,000	
Harbor Development.....	5,055	
Water Conservation .....	3,000	57,000
Total General Long-Term Obligations.....	11,311,245	7,928,200
<b>Enterprise Funds</b>		
Veterans .....	3,198,815	639,900
California Water Resources Development .....	1,231,065	171,000
State School Building Aid .....	117,350	40,000
Hazardous Substance Cleanup .....	85,000	
First-Time Home Buyers.....	3,250	185,000
Total Enterprise Funds.....	4,635,480	1,035,900
<b>Total General Obligation Bonds .....</b>	<b>\$15,946,725</b>	<b>\$8,964,100</b>

### C. *Debt Service Requirements*

The following schedule shows the debt service requirements for general obligation bonds, including interest of \$10.4 billion, as of June 30, 1992 (in thousands):

<b><u>Year Ending June 30</u></b>	<b><u>General Long-Term Obligations</u></b>	<b><u>Enterprise Funds</u></b>
1993 .....	\$ 1,412,956	\$ 515,676
1994 .....	1,428,337	511,394
1995 .....	1,370,266	504,421
1996 .....	1,310,289	485,829
1997 .....	1,263,656	465,469
Thereafter.....	<u>11,415,780</u>	<u>5,692,049</u>
Total.....	<u>\$18,201,284</u>	<u>\$8,174,838</u>

### 12. **Revenue Bonds**

With approval in advance from the Legislature, certain state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the earnings of the respective enterprise funds of the agencies listed in Section B of this note or from resources of certain plant funds or loan funds of the University of California. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

The Department of Water Resources, the California State University, the California Transportation Commission, the State Public Works Board, and the University of California issued revenue bonds to acquire, construct, or renovate state facilities. The California Housing Finance Agency, the Department of Veterans Affairs, and the California National Guard issued revenue bonds allowing the State to make loans to finance housing development and to finance the acquisition of farms and homes by California veterans and National Guard members. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals or entities.

### A. *Changes in Bond Indebtedness*

The following schedule summarizes the changes in revenue bond debt for the year ended June 30, 1992 (in thousands):

	<u>Balance</u> <u>July 1,</u> <u>1991</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30,</u> <u>1992</u>
Enterprise funds.....	\$ 8,608,728	\$ 2,587,796	\$ 1,527,356	\$ 9,669,168
University of California	<u>1,331,481</u>	<u>545,035</u>	<u>386,209</u>	<u>1,490,307</u>
Total Revenue Bonds..	<u>\$9,940,209</u>	<u>\$3,132,831</u>	<u>\$1,913,565</u>	<u>\$11,159,475</u>

B. *Revenue Bonds Outstanding*

The following schedule shows revenue bonds outstanding as of June 30, 1992 (in thousands):

	<u>Outstanding</u>
<b>Enterprise Funds</b>	
California Housing Finance Agency .....	\$ 4,099,958
State Public Works Board .....	2,431,137
Department of Water Resources .....	1,748,859
Department of Veterans Affairs .....	976,471
California State University.....	325,703
California Transportation Commission.....	76,506
California National Guard.....	10,534
Total Enterprise Funds .....	<u>9,669,168</u>
<b>University of California</b>	
Regents of the University of California .....	<u>1,490,307</u>
Total Revenue Bonds.....	<u>\$11,159,475</u>

C. *Debt Service Requirements*

The following schedule shows the debt service requirements for revenue bonds, including interest of \$12.4 billion, as of June 30, 1992 (in thousands):

<u>Year Ending</u> <u>June 30</u>	<u>Enterprise</u> <u>Funds</u>	<u>University</u> <u>of</u> <u>California</u>
1993 .....	\$ 898,700	\$ 124,846
1994 .....	821,188	120,237
1995 .....	801,697	120,577
1996 .....	819,014	121,538
1997 .....	801,550	120,511
Thereafter.....	<u>16,032,881</u>	<u>2,745,502</u>
Total.....	<u>\$20,175,030</u>	<u>\$3,353,211</u>

D. *Early Extinguishments of Debt*

*Fiscal Year 1991-92 Defeasances*

During the year ended June 30, 1992, three state agencies conducted advance refunding transactions that resulted in defeasance of debt. The California Housing Finance Agency issued approximately \$91.4 million of Multi-Unit Rental Housing Revenue Bonds II, 1992 Series A, and \$37.9 million of Multi-Unit Rental Housing Revenue Bonds II, 1992 Series B, and used the proceeds along with \$22.9 million of other available funds to satisfy a debt of \$49.2 million of 1982 Series A, \$26.6 million of 1982 Series B, \$31.8 million of 1983 Series A of the same indenture, and \$41.7 million of Rental Housing Revenue Bonds, 1982 Series A. The Multi-Unit Rental Housing Revenue Bonds II, Series A and B and 1983 Series A bonds, and the Rental Housing Revenue Bonds, 1982 Series A, bonds were not actually redeemed until August 1, 1992, but were considered redeemed as of June 30, 1992, as legal notices of defeasance of the bonds were sent to the bondholders in June 1992. Since the defeasance of the bonds freed the agency from its obligations for the bonds, the liability is not included on the combined balance sheet, nor are the related assets.

Although the advance refunding resulted in the recognition of an accounting loss of \$4.9 million for the year ended June 30, 1992, the agency in effect reduced its aggregate debt service payments by \$102 million over the next 30 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$40 million.

During the year ended June 30, 1992, the Department of Water Resources issued \$649.8 million of Central Valley Project Water System Revenue Bonds, Series J, and used \$602.4 million of the proceeds to satisfy a debt of \$426 million of the Central Valley Project Power Facilities Revenue Bonds, Series A, D, E, F, and H, and \$173.9 million of the Central Valley Project Water System Revenue Bonds, Series B and D. The department invested the \$602.4 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer's Office. Of the \$602.4 million investment, \$89.5 million was used to redeem Central Valley Project Power Facilities Revenue Bonds, Series A, in March 1992. The remaining investment and interest will be sufficient to redeem the Central Valley Project Power Facilities Revenue Bonds, Series E, F, and H, the remaining portion of the Series D bonds not defeated previously, as well as the Central Valley Project Water System Revenue Bonds, Series B and D, as they become due. Since the escrow arrangements effectively release the Department of Water Resources from its obligations for the bonds, the liability is not included on the combined balance sheet, nor are the related investments.

Although the advance refunding resulted in the recognition of an accounting loss of \$48.8 million for the year ending June 30, 1992, the department in effect reduced its aggregate debt service payments by \$175 million over the next 33 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$66 million.

During the year ended June 30, 1992, the California State University issued approximately \$36 million of 1991 Housing System Refunding Revenue Bonds and used the proceeds to satisfy a debt of \$35.9 million of California State University Housing System Revenue Bonds, Series R, S, X, Z, AA, and AB. The university invested the \$36 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer's Office. The investment and interest will be sufficient to redeem certain of the California State University Housing System Revenue Bonds, Series R, S, X, Z, AA, and AB as they become due. As of June 30, 1992, the entire \$35.9 million remained outstanding. Since the escrow arrangements effectively release the university from its obligations for the \$35.9 million, the liability for the bonds is not included on the combined balance sheet, nor are the related investments.

Although the advance refunding resulted in the recognition of an accounting loss of \$900 thousand for the year ended June 30, 1992, the university in effect reduced its aggregate debt service payments by \$16.6 million over the next 25 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$4.6 million.

#### *Prior Year Defeasances*

In prior years, the Department of Water Resources defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the State Treasurer's Office to provide for all future debt service payments on the old bonds. Accordingly, the assets and the liability for the defeased bonds are not included in the State's financial statements. On June 30, 1992, \$485.56 million of bonds outstanding are considered defeased.

### **13. No-Commitment Debt**

State legislation created various authorities to provide certain private and public entities with a low-cost source of capital financing for constructing or obtaining land, facilities, or equipment deemed to be in the public interest. This debt is secured solely by the credit of the private and public entities and, except for approximately \$37 million in Pollution Control Bonds administered by the State Treasurer's Office, is administered by trustees independent of the State. The State has no obligation for this debt. Accordingly, these bonds are not reported in the accompanying financial statements.

The following schedule shows no-commitment debt outstanding as of June 30, 1992 (in thousands):

	<u>Outstanding</u>
Health Facilities Financing Authority.....	\$4,986,409
Pollution Control Financing Authority.....	3,540,396
Educational Facilities Authority .....	1,098,555
Alternative Energy Source Financing Authority.....	81,070
School Finance Authority.....	26,255
Urban Waterfront Area Restoration Financing Authority.....	3,330
Total No-Commitment Debt.....	<u>\$9,736,015</u>

#### 14. Commitments

##### A. *Leases*

The aggregate amount of lease commitments for facilities and equipment, excluding leases between the University of California and nonstate entities, in effect as of June 30, 1992, is approximately \$5.1 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, and they contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

The minimum lease commitments are summarized below (in thousands):

<u>Year Ending June 30</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
1993 .....	\$ 210,797	\$ 232,225	\$ 443,022
1994 .....	198,426	235,688	434,114
1995 .....	172,899	234,611	407,510
1996 .....	142,130	243,957	386,087
1997 .....	119,038	228,716	347,754
Thereafter.....	<u>355,330</u>	<u>2,685,722</u>	<u>3,041,052</u>
Total Minimum Lease Payments .....	<u>\$1,198,620</u>	<u>3,860,919</u>	<u>\$5,059,539</u>
Less amount representing interest .....		<u>1,864,208</u>	
Present Value of Net Minimum Lease Payments .....		<u>\$1,996,711</u>	

Lease expenditures for the year ended June 30, 1992, amounted to approximately \$422 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board amounting to a present value of net minimum lease payments of \$1.5 billion, which represents 77 percent of the total present value of minimum lease payments. See Note 7.

Also included in the capital lease commitments are some lease-purchase agreements to acquire office buildings and electronic data processing and other equipment. The acquisition or development of the office buildings is financed by joint powers authorities and private corporations that then lease the facilities to the State. Upon expiration of these leases, title to the facilities and equipment will pass to the State.

The following schedule presents a summary of the capital lease commitments as of June 30, 1992 (in thousands):

	<u>Present Value of Minimum Lease Payments</u>	<u>Interest</u>	<u>Total Minimum Lease Payments</u>
<b>Leases with the State Public Works Board for:</b>			
<b>California State Prison</b>			
Imperial.....	\$ 198,052	\$ 331,538	\$ 529,590
Del Norte .....	241,292	222,858	464,150
Corcoran.....	272,890	160,336	433,226
Madera.....	129,019	135,866	264,885
Amador.....	139,630	65,297	204,927
Kern .....	62,602	27,479	90,081
<b>California State University</b>			
San Jose .....	28,609	25,112	53,721
Sacramento .....	16,814	18,426	35,240
Northridge.....	16,095	18,873	34,968
Long Beach.....	16,196	15,742	31,938
O'Connell Technology Center .....	9,183	11,359	20,542
Fresno .....	7,504	8,864	16,368
San Luis Obispo .....	5,569	4,595	10,164
Chico .....	1,962	2,404	4,366
<b>University of California</b>			
Irvine.....	90,630	88,152	178,782
Davis.....	67,206	100,205	167,411
Berkeley.....	60,392	54,475	114,867
Los Angeles .....	51,577	53,654	105,231
San Diego .....	47,353	41,191	88,544
Santa Cruz .....	22,435	22,623	45,058
Santa Barbara.....	22,337	19,077	41,414
<b>Various state energy efficiency projects</b>			
Phase 1.....	37,088	17,198	54,286
Phase II.....	1,012	317	1,329
<b>Subtotal.....</b>	<b><u>1,545,447</u></b>	<b><u>1,445,641</u></b>	<b><u>2,991,088</u></b>

	<u>Present Value of Minimum Lease Payments</u>	<u>Interest</u>	<u>Total Minimum Lease Payments</u>
<b>Leases with nonstate entities for:</b>			
Ronald Reagan Building .....	165,648	163,443	329,091
East Bay State Building.....	126,165	124,577	250,742
San Francisco State Building .....	48,070	67,391	115,461
Franchise Tax Board .....	36,870	23,830	60,700
Department of Corrections .....	14,038	6,118	20,156
Department of General Services			
Telecommunications Division .....	6,518	9,159	15,677
Office of Building and Grounds .....	7,245	5,886	13,131
California State University Chancellor's Office .....			
4,774	5,576	10,350	
Department of Motor Vehicles .....	6,704	2,114	8,818
Health and Welfare Agency Data Center.....	4,560	3,423	7,983
Santa Ana Civic Center .....	3,418	1,958	5,376
California Highway Patrol .....	1,842	1,073	2,915
L.A. State Parking Facility.....	944	309	1,253
Prison Industry Authority .....	543	106	649
Department of Transportation .....	406	87	493
Equipment.....	<u>23,519</u>	<u>3,517</u>	<u>27,036</u>
Subtotal.....	<u>451,264</u>	<u>418,567</u>	<u>869,831</u>
Total Capital Leases .....	<u>\$1,996,711</u>	<u>\$1,864,208</u>	<u>\$3,860,919</u>

Rental expenditures under capital and noncancelable operating leases between the University of California and nonstate entities for the year ended June 30, 1992, totaled \$86.8 million. Minimum payments required under these leases in fiscal year 1992-93 are \$23.7 million and decrease in amount thereafter.

#### B. *Highway Construction*

The State has made commitments of \$2.1 billion for certain highway construction projects. These commitments are not included in the reserve for encumbrances in the special revenue funds because the future expenditures related to these commitments are expected to be reimbursed from local governments and proceeds of approved federal grants. The ultimate liability will not accrue to the State.

#### C. *Other*

As of June 30, 1992, the State, excluding the University of California, had other commitments totaling \$2.8 billion. These commitments included loan and grant programs for

housing, school building aid, community college and county jail construction, community parks, supply systems for water, energy conservation, and forest resource improvement totaling approximately \$1.6 billion. These commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued. The total commitments also include approximately \$17 million for the construction of portable classrooms and the construction and rehabilitation of toll bridge facilities, approximately \$928 million for the construction of water projects and the purchase of water and power, and up to \$223 million for the operation and maintenance of the lottery's automated gaming system. Construction projects of the University of California, totaling \$891 million, had been authorized as of June 30, 1992.

## **15. Fund Balance Reserved for Other Specific Purposes**

### *General Fund*

Of the \$226 million reserve, \$171 million represents the unencumbered balances of appropriations restricted for future educational purposes in accordance with Article XVI, Section 8, of the State Constitution and \$55 million is reserved for support of the University of California in accordance with Chapter 118, Statutes of 1991.

### *Special Revenue Funds*

Of the \$89 million reserve, \$67 million represents condemnation deposits and \$22 million is reserved for transfer to the State's General Fund.

### *Trust and Agency Funds*

The reserve represents assets of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

### *University of California*

The reserve in the current funds represents funds for which outside sources or donors specify the use. The reserve in the endowment and similar funds primarily consists of income-generating gifts in which, by definition, the principal is maintained and invested and the income is used. In the plant funds, the reserve consists of monies designated to finance the acquisition and construction of capital assets. Finally, the reserve in the loan funds consists of monies designated for various loans to students and faculty.

## **16. Fund Deficits**

The special revenue fund type, the capital projects fund type, and the enterprise fund type had positive fund equities as of June 30, 1992. However, 3 of the 22 special revenue funds that receive bond proceeds had deficits at June 30, 1992. Additionally, 2 of the 10 capital projects funds that receive bond proceeds had deficits at June 30, 1992. Also, one of 10 enterprise funds

that receive bond proceeds had a deficit at June 30, 1992. These deficits result from the way the State has financed certain projects since the passage of the Federal Tax Reform Act of 1986. The State, before issuing bonds, temporarily borrows from its own pooled investments to pay project costs. These loans are recorded as a liability of the fund rather than being recorded in the General Long-Term Obligations Account Group. Because both the liability and the cash proceeds from the loan are reported in the fund, any expenditure recorded in the fund creates a temporary deficit. The deficit will be eliminated when the State later issues the bonds and uses the proceeds to repay the loan.

At June 30, 1992, the deficits in the 3 special revenue funds totaled \$181 million. All of these funds had bonds authorized but unissued that exceeded their deficit. In total, these funds had \$946 million in authorized but unissued bonds.

At June 30, 1992, the deficits in the 2 capital projects funds totaled \$17 million. Each of these funds had bonds authorized but unissued that exceeded their deficits. In total, these funds had \$23 million in authorized but unissued bonds.

At June 30, 1992, the deficit in the one enterprise fund was \$1.4 million. The fund had bonds authorized but unissued that exceeded its deficit. In total, this fund had \$185 million in authorized but unissued bonds.

Also, one enterprise fund, the Hazardous Substance Cleanup Fund, had a deficit in retained earnings of \$69 million on June 30, 1992. This deficit occurred because the State has not recovered hazardous waste cleanup costs from responsible parties.

## **17. Restatement of General Fund Beginning Fund Balance**

Starting July 1, 1991, tax revenues are recorded by the State as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Previously, tax revenues were recognized when cash was received and adjusted when overpayments and underpayments of taxes could be identified. This change in accounting policy is consistent with the principle that "revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period." The liability for tax overpayments and the receivable for taxes are reported in an agency fund in the general purpose financial statements. The taxes receivable net of tax overpayments are transferred to the General Fund. Thus, this net amount is reported in the General Fund as due from other funds.

## **18. Restatement of University of California Beginning Fund Balance**

During fiscal year 1991-92, the University adopted a method of accounting for compensated absences (earned but unused vacation) that is in accordance with the requirements of Statement of Financial Accounting Standards No. 43. In prior years, compensated absences were recorded when paid to employees.

The University has restated the prior year's current funds unrestricted and restricted balances and balance sheet comparative totals by recording an accrual for earned but unused vacation as of June 30, 1991.

The accrued liability will be funded in future years by state appropriations, federal funds, hospital funds, and other sources as the liability is paid.

## **19. Major Tax Revenues**

Tax revenues for the year ended June 30, 1992, are as follows (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>
Personal income.....	\$16,410,760		
Sales and use .....	15,169,587	\$2,827,345	
Bank and corporation .....	3,948,476		
Unemployment insurance .....			\$2,035,874
Disability insurance.....			2,341,201
Insurance.....	1,167,378		
Cigarette and tobacco .....	168,693	524,845	
Other .....	780,860	134,119	25,223
Total.....	<u>\$37,645,754</u>	<u>\$3,486,309</u>	<u>\$4,402,298</u>

## **20. Pension Trusts**

The State administers five defined benefit contributory retirement plans: the Public Employees' Retirement System, the State Teachers' Retirement System, the Judges' Retirement System, the Legislators' Retirement System, and the University of California Retirement System. The University of California Retirement System is reported in the University of California fund type. The other pension funds are included in the fiduciary fund type. Additional information for each retirement system can be found in each system's separately issued financial report.

## A. *Public Employees' Retirement System*

### *Plan Description*

The Public Employees' Retirement System (PERS) is an agent multiple-employer public employees' retirement system. It is administered by the Board of Administration (board) of the PERS. The board also administers other retirement systems and programs. The PERS had approximately 688,000 active and inactive members at June 30, 1992, excluding current benefit recipients of approximately 270,000. The membership includes employees of the State of California, nonteaching school employees, and employees of California public agencies. These employees are covered under 1,250 contracts with the PERS. The payroll of member agencies covered by the PERS was approximately \$19.0 billion in fiscal year 1991-92. At June 30, 1992, the PERS had approximately 237,000 state members. The State's payroll covered by the PERS was approximately \$7.8 billion out of a total payroll of approximately \$10.5 billion, which includes the payroll of the University of California of approximately \$2.3 billion.

All employees of member agencies who work halftime or more are eligible to participate in the PERS. The PERS administers several different retirement plans, each providing a monthly allowance based on age, years of credited service, and highest average compensation over an established period of one to three years. Vesting occurs after five or ten years, depending on the plan. All plans provide death and disability benefits. The benefit provisions for state and nonteaching school employees are established by statute. The benefits for public agencies are established by contract with the PERS in accordance with the provisions of the Public Employees' Retirement Law.

Employees of the State of California who are covered by PERS are classified into the following groups: safety members, consisting of employees in law enforcement and fire prevention and suppression; industrial members, consisting of employees of the youth and adult correctional facilities who are not safety members; and miscellaneous members, consisting of all other members and representing the majority of state employees. In previous years, the State offered certain groups of employees in the industrial and miscellaneous categories two retirement options: a first tier and a second tier option. In the first tier, employees contribute a percentage of their payroll to the PERS. In the second tier, employees do not contribute to the PERS and receive reduced benefits. After June 30, 1991, employees who become eligible to participate in the PERS are subject to the second tier.

Upon separation from the PERS, members can elect to have their accumulated contributions refunded with interest credited through the date of refund. The annual rate of interest credited to members' accounts was 6 percent at June 30, 1992.

State employees become vested after five years if they are covered by the first tier plan and after ten years if they are covered by the second tier plan. The retirement benefits of state employees vary according to the plan under which they are covered. The

benefits of the largest group, miscellaneous members in the first tier plan, are based on a formula that, at age 60, provides benefits equal to 2 percent of the highest compensation over twelve consecutive months multiplied by the years of service. Early retirement options at reduced benefits are also available.

All employees of member agencies contribute to the PERS except for the state employees in the second tier plan. The contribution rates vary between the plan and the employer. The state employees' contribution rates range from 5 percent of the monthly salary over \$513 for industrial and miscellaneous members in the first tier plan who are also covered by social security up to 8 percent of the monthly salary over \$863 for certain safety members who are not covered by social security.

Employers are required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the actuaries and actuarial consultants of the PERS and adopted by the board.

#### *Investment Matters*

Statutes authorize the PERS to invest in stocks, bonds, mortgages, real estate, and other investments. The Boston Safe Deposit and Trust Company is the master custodian for the majority of the investments.

Equity securities are reported at cost, subject to adjustment for market declines that are other than temporary. Fixed-income securities are reported at amortized cost. The market value is based on published market prices and quotations from major investment brokers.

#### *Funding Status and Progress*

The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the PERS on a going-concern basis, assess the progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the PERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1991. Significant actuarial assumptions used in the valuation include the following: (a) a rate of return on the investment of present and future assets of 8.75 percent per year compounded annually; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; (c) additional salary increases of

0.75 percent per year attributable to across-the-board salary increases and 0.75 to 2.00 percent per year attributable to merit raises; and (d) post-retirement benefit increases based on the contracts with the member agencies.

The following schedule shows the total unfunded pension benefit obligation of the PERS and the State's portion of the total on June 30, 1991 (in thousands):

	<u>Total PERS</u>	<u>State's Portion</u>
<b>Pension benefit obligation to:</b>		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits .....	\$25,656,718	\$12,136,477
Current employees:		
Accumulated employee contributions, including allocated investment earnings .....	11,720,032	3,942,175
Employer-financed vested .....	21,256,102	11,358,260
Employer-financed nonvested.....	<u>1,215,168</u>	<u>594,357</u>
Total pension benefit obligation.....	59,848,020	28,031,269
Net assets available for benefits, at cost (market value of \$60 billion and \$26 billion, respectively) .....	<u>53,732,460</u>	<u>23,163,811</u>
Unfunded pension benefit obligation .....	<u>\$ 6,115,560</u>	<u>\$ 4,867,458</u>

Effective October 1991, the PERS adopted new economic actuarial assumptions with respect to interest rate and projected salary increases. The effect was to decrease the pension benefit obligation by \$2.3 billion.

#### *Contribution Requirements*

The PERS uses the entry-age normal actuarial cost method, which is a projected-benefit cost method. The method takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. The PERS uses a modification of the entry-age cost method in which the employer's total normal cost is expressed as a level percentage of payroll. The PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liability. The amortization period of the unfunded actuarial liability varies by agency but is no longer than 40 years.

The significant assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

The required contributions consist of a normal cost of 9.579 percent of covered payroll and an amortization of unfunded liabilities of 1.433 percent of covered payroll. The actual employer contributions were reduced by \$194 million due to permitted usage of assets in excess of funding requirement and reduced by \$1.5 billion due to the usage of credits resulting from state legislative action. Effective July 1, 1991, the state legislation eliminated two special cost of living adjustment accounts; the balances in the accounts will be used to offset employer contributions. PERS estimates the fiscal year 1992-93 reduction to be \$458 million.

The following schedule shows the actual contributions during fiscal year 1991-92 (amounts in thousands):

	<u>Amount</u>	<u>Percentage of Payroll</u>
Employer .....	\$ 439,493	2.31%
Members.....	<u>1,170,517</u>	<u>6.16</u>
Total.....	<u>\$1,610,010</u>	<u>8.47%</u>

The rates at which the State was required to contribute to the PERS during fiscal year 1991-92 were as follows:

	<u>Normal Cost</u>	<u>Unfunded Liability</u>	<u>Total Rate</u>
<b>Miscellaneous members:</b>			
First tier .....	10.278%	1.526%	11.804%
Second tier.....	3.842	.144	3.986
Industrial.....	13.134	.265	13.399
Highway patrol .....	20.762	.959	21.721
Peace officers and firefighters.....	16.858	.528	17.386
Other safety members.....	16.911	.465	17.376

The actual contributions, also expressed as a percentage of payroll, of the State and the PERS members for the year ended June 30, 1992, were as follows (amounts in thousands):

	<u>Amount</u>	<u>Percentage of Covered Payroll</u>
<b>Miscellaneous:</b>		
Employer .....	\$ 613,621	10.71%
Members .....	215,310	3.76
<b>Industrial:</b>		
Employer .....	32,806	13.40
Members .....	8,503	3.47
<b>Highway patrol:</b>		
Employer .....	59,402	21.72
Members .....	15,902	5.81
<b>Peace officers and firefighters:</b>		
Employer .....	219,407	17.39
Members .....	92,629	7.34
<b>Other safety:</b>		
Employer .....	43,054	17.38
Members .....	<u>15,429</u>	6.23
<b>Total Contributions.....</b>	<b><u>\$1,316,063</u></b>	

#### *Trend Information*

The following schedule shows the net assets available for benefits as a percentage of the pension benefit obligation and the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1991, 1990, and 1989 (amounts in thousands). Additional trend information is available in the separately issued financial report of the PERS for the year ended June 30, 1992.

	<u>June 30</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Net assets available for benefits .....	\$53,732,400	\$49,362,100	\$43,714,200
Pension benefit obligation .....	59,848,000	56,569,200	49,241,900
Percentage funded.....	90%	87%	89%
Unfunded pension benefit obligation .....	\$ 6,115,600	\$ 7,207,100	\$ 5,527,700
Annual covered payroll .....	18,992,100	16,297,600	14,659,400
Unfunded pension benefit obligation as a percentage of covered payroll .....	32%	44%	38%

B. *State Teachers' Retirement System*

*Plan Description*

The State Teachers' Retirement System (STRS) is a cost-sharing multiple-employer retirement system that provides pension benefits to teachers and certain other employees of the California public school system. At June 30, 1992, the STRS had approximately 1,150 contributing employers (school districts). Additionally, the State is a nonemployer contributor to the STRS.

Membership in the pension plan is mandatory for all employees who hold a teaching certificate and who are eligible for membership. At June 30, 1992, the STRS had approximately 183,400 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them. Also, the STRS had approximately 312,600 vested and nonvested active members.

Members become fully vested in retirement benefits after five years of credited service. In general, the STRS provides defined retirement benefits based on the members' final compensation, age, and length of service. In addition, benefits are provided for disability and for survivors upon the death of eligible members. Final compensation is defined as the average salary earnable for either the highest three consecutive years of credited service or the highest one year of compensation if an employer elects to pay for the additional cost. At age 60, the benefit formula provides benefits equaling 2 percent of final compensation multiplied by the years of service. Early retirement options are also available.

Members are eligible for disability benefits before age 60 after five years of credited service. The disability benefits range up to 90 percent of final compensation. Also available are family benefits if the deceased member had at least one year of credited service.

The members' accumulated contributions and accrued interest are refundable to employees upon separation.

The following is a summary of the sources of contributions:

Members – 8 percent of applicable member earnings

Employers – 8.25 percent of applicable member earnings

State of California – Beginning July 1, 1991, annual contributions are 4.3 percent of the prior calendar year covered payroll.

- Under certain provisions of the California Education Code, employers are required to make contributions of .415 percent of payroll to the State. These contributions are subsequently appropriated by the State to the STRS. Actual appropriations for fiscal year 1991-92 were \$50.5 million, or .420 percent of payroll. An additional amount of approximately \$1.1 million was received in fiscal year 1991-92 for General Fund transfer deficiencies for prior years.

#### *Investment Matters*

The STRS is authorized to invest in obligations of the United States government, the Canadian government, United States corporations with a rating of BBB or above, and private placements. The STRS may also invest in notes collateralized by first mortgages and deeds of trust for real estate located in the United States, common and preferred stocks of corporations domiciled in the United States or Canada, real properties, mutual funds, units of participation in commingled index funds, and other investments.

The majority of the securities held in the investment portfolio at June 30, 1992, is in the custody of or controlled by the State Street Bank and Trust Company, the STRS' master custodian.

Debt securities and mortgage loans are reported at amortized cost. Equity securities are reported at average cost. Short-term and other investments are reported at cost, which approximates market value. Real estate equity investments consist of commercial real estate and are reported at cost, which approximates net realizable value.

#### *Funding Status*

The amount shown below as pension benefit obligation is a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The amount is the actuarial present value of credited projected benefits and is intended to help users assess the STRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. This measure is independent of the actuarial methods used to calculate the contribution requirements described below.

The pension benefit obligation below was derived from the last completed actuarial valuation as of June 30, 1991. Significant actuarial assumptions used in the valuation include the following: (a) consumer price index increases of 5 percent annually; (b) projected salary increases attributable to inflation, merit, and promotion of 6.5 percent

annually; (c) a rate of return on the investment of present and future assets of 8.5 percent; (d) an expected growth in membership of 0.75 percent; and (e) administrative expenses of 0.25 percent of payroll.

At June 30, 1991, the estimated unfunded pension benefit obligation was as follows (in thousands):

Pension benefit obligation to:

Retirees and beneficiaries currently receiving benefits .....	\$16,984,000
Current members.....	28,789,000
Inactive members .....	<u>551,000</u>
Total pension benefit obligation .....	46,324,000
Net assets available for benefits (at amortized cost) .....	<u>32,046,000</u>
Unfunded pension benefit obligation.....	<u>\$14,278,000</u>

As a result of the June 30, 1991, actuarial experience analysis, STRS revised the assumptions for the growth in membership and for demographics. The effect was to increase the pension benefit obligation by \$183 million.

*Contribution Requirements*

Required contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. Actual member and employer rates are set by statute. The system also uses the level percentage of payroll method to calculate the amortization of the unfunded liability.

In their actuarial valuation as of June 30, 1991, the STRS' independent actuaries determined that the current statutory contributions are equivalent to 20.41 percent of covered payroll over the amortization period, which is estimated to be 38 years from July 1, 1991. The current level of contributions is sufficient to fund normal cost and amortize the actuarial unfunded obligation. Once amortization is complete, the state contribution will drop to the level necessary to fund normal cost of the current benefit program.

*Trend Information*

The following schedule shows the net assets available for benefits as a percentage of the pension benefit obligation and shows the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1991, 1990, and 1989 (amounts in thousands). Additional trend information is available in the separately issued STRS' financial report for the year ended June 30, 1992:

	<b>June 30</b>		
	<b>1991</b>	<b>1990</b>	<b>1989</b>
Net assets available for benefits.....	\$32,046,000	\$29,363,000	\$26,228,300
Pension benefit obligation.....	46,324,000	42,714,000	39,322,200
Percentage funded .....	69%	69%	67%
Unfunded pension benefit obligation.....	\$14,278,000	\$13,351,000	\$13,093,800
Annual covered payroll.....	11,816,000	10,971,000	10,222,400
Unfunded pension benefit obligation as a percentage of covered payroll .....	121%	122%	128%

### C. *Judges' Retirement System*

#### *Plan Description*

The Judges' Retirement System (JRS) is an agent multiple-employer retirement system. It is administered by the Board of Administration of the PERS, and it operates under the Judges' Retirement Law of the California Government Code. The JRS provides pension benefits to judges of the California Supreme Court, courts of appeal, superior courts, municipal courts, and justice courts. As of June 30, 1992, the JRS had 1,498 active and inactive members and 1,132 retired members and beneficiaries receiving benefits. The covered payroll for fiscal year 1991-92 was estimated at \$153.1 million.

Generally, members become fully vested in retirement benefits after five years of service credit. The JRS provides defined retirement benefits based on the members' years of service and the present salaries of incumbents in the offices from which they retired. In addition, the JRS provides benefits for disability and for survivors upon the death of eligible members. Members are generally eligible for retirement benefits at age 60 with 20 years of service. The JRS is funded on a "pay-as-you-go" basis under which the JRS uses active member contributions and short-term investments to fund current benefit payments to retirees. Members contribute 8 percent of the applicable member compensation. The employers, which are the State and the counties, contribute another 8 percent. The State also has to make other contributions as necessary.

#### *Investment Matters*

State law authorizes the JRS to invest in stocks, bonds, mortgages, real estate, and other investments. The Boston Safe Deposit and Trust Company is the master custodian of the investments. Investments are reported at cost plus accrued interest, which approximates market value.

#### *Funding Status and Progress*

The pension benefit obligation is a standardized disclosure measure of the actuarial present value of projected pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

The measure is intended to help users assess the JRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is independent of the funding method used to determine contributions to the JRS.

Significant economic actuarial assumptions used to calculate the pension benefit obligation were an actuarial interest rate of 6 percent per year and expected salary increases of 5.75 percent, which includes an expected inflation rate of 5 percent.

The following schedule shows the total unfunded pension benefit obligation applicable to the JRS at June 30, 1991 (in thousands):

Pension benefit obligation to:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits .....	\$ 939,656
Current employees:	
Accumulated employee contributions including allocated investment income .....	76,830
Employer-financed vested.....	552,691
Employer-financed nonvested.....	<u>155,079</u>
Total pension benefit obligation .....	1,724,256
Net assets available for benefits, at cost, which approximates market.....	<u>2,978</u>
Unfunded pension benefit obligation.....	<u><u>\$1,721,278</u></u>

*Contribution Requirements*

The contribution requirements of the JRS are not actuarially determined. Contribution requirements are established by law. Based on actuarial information, the State needed to contribute a total of \$170 million to fund costs accruing each year and liquidate the unfunded accrued liability as of June 30, 1991. The State actually contributed a total of approximately \$40 million.

The last actuarial valuation of the JRS' assets and liabilities was performed as of June 30, 1991. An independent actuary used the valuation to determine the adequacy of the financing structure currently available to the JRS. The independent actuary determined that a minimum contribution rate of 119.24 percent of covered payroll would be required to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1991. This rate was determined to fund the JRS fully by January 1, 2002. The independent actuary determined that lesser rates would be required over longer periods of time. The minimum contribution rate determined by the independent actuary is significantly higher than the contribution rate of 8 percent available under current law.

### *Trend Information*

The following schedule shows the net assets available for benefits as a percentage of the pension benefit obligation and shows the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1991, 1990, and 1989 (amounts in thousands). Additional trend information is available in the separately issued financial report of the JRS for the year ended June 30, 1992.

	<b>June 30</b>		
	<b>1991</b>	<b>1990</b>	<b>1989</b>
Net assets available for benefits .....	\$ 2,900	\$ 1,200	\$ 1,700
Pension benefit obligation .....	1,724,200	1,565,500	1,214,500
Percentage funded.....	.17%	.07%	.14%
Unfunded pension benefit obligation .....	\$1,721,200	\$1,564,300	\$1,212,800
Annual covered payroll .....	142,500	139,000	112,000
Unfunded pension benefit obligation as a percentage of covered payroll.....	1,208%	1,126%	1,083%

### **D. Legislators' Retirement System**

#### *Plan Description*

The Legislators' Retirement System (LRS) is an agent single-employer retirement system. It is administered by the Board of Administration of the PERS, and it operates under the Legislators' Retirement Law of the California Government Code. The LRS provides pension benefits to eligible members of the Legislature, constitutional officers, and legislative statutory officers who elect to participate in the plan. At June 30, 1992, the LRS had 158 active and inactive members and 247 retired members and beneficiaries. The covered payroll for fiscal year 1991-92 was estimated at \$6.2 million.

Generally, members become fully vested in the pension plan after four years of service credit. The LRS provides defined retirement benefits based on the members' length of service and final compensation. In addition, the LRS provides benefits for disability and for survivors upon the death of eligible members. Members are generally eligible for retirement benefits at age 60 with four or more years of service or at any age with 15 or more years of service. The Legislators' Retirement Law currently provides that the State contribute 18.81 percent of applicable member compensation; the members contribute between 4 and 8 percent of compensation.

#### *Investment Matters*

Statutes authorize the LRS to invest in stocks, bonds, mortgages, real estate, and other investments. The Boston Safe Deposit and Trust Company is the master custodian for the investments.

Equity securities are reported at cost subject to adjustment for market declines judged to be other than temporary. Fixed-income securities and real estate mortgage loans are reported at amortized cost. Corporate shares and short-term investments are reported at cost. The market value of investments is generally based on published market prices and quotations from major investment brokers.

#### *Funding Status and Progress*

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the LRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the LRS.

Significant economic actuarial assumptions used to calculate the pension benefit obligation were an actuarial interest rate of 8.5 percent per year and expected salary increases of 5.5 percent, which includes an expected inflation rate of 5 percent.

The following schedule shows the total unfunded pension benefit obligation applicable to the LRS at June 30, 1991 (in thousands):

#### Pension benefit obligation to:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits .....	\$ 63,917
Current employees:	
Accumulated employee contributions including allocated investment income .....	6,652
Employer-financed vested.....	16,039
Employer-financed nonvested .....	<u>8,695</u>
Total pension benefit obligation.....	95,303
Net assets available for benefits, at cost, (market value is approximately \$76,041) .....	<u>67,707</u>
Unfunded pension benefit obligation.....	<u><u>\$27,596</u></u>

#### *Contribution Requirements*

The State's contribution rate of 18.81 percent is required by state law. However, the State uses a contribution rate of 9.75 percent for inactive members.

The last actuarial valuation of the LRS' assets and liabilities was performed as of June 30, 1991. An independent actuary used the valuation to determine the adequacy of the financing structure currently available to the LRS. The independent actuary determined that a minimum contribution rate of 45.07 percent of covered payroll would be required to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1991. The independent actuary determined that lesser rates would be required over longer periods of time. This rate was determined to fund the LRS fully by the year 2010. The minimum contribution rate is significantly higher than the contribution rate of 18.81 percent available under current law.

#### *Trend Information*

The following schedule shows the net assets available for benefits as a percentage of the pension benefit obligation and shows the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1991, 1990, and 1989 (amounts in thousands). Additional trend information is available in the separately issued financial report of the LRS for the year ended June 30, 1992.

	<b>June 30</b>		
	<b>1991</b>	<b>1990</b>	<b>1989</b>
Net assets available for benefits .....	\$67,700	\$63,500	\$57,000
Pension benefit obligation .....	95,300	80,000	73,200
Percentage funded.....	71%	79%	78%
Unfunded pension benefit obligation .....	\$27,600	\$16,500	\$16,200
Annual covered payroll .....	1,900	5,500	5,500
Unfunded pension benefit obligation as a percentage of covered payroll.....	1,453%	300%	295%

#### *E. University of California Retirement System*

##### *Plan Description*

The University of California Retirement System (UCRS) includes a defined benefit pension plan that provides pension benefits to eligible employees of the University of California and the Hastings College of the Law. The pension plan provides retirement and disability benefits and benefits for survivors upon the death of eligible members. At June 30, 1992, the pension plan had approximately 92,500 members with approximately 20,600 members receiving benefits.

##### *Investment Matters*

The UCRS has investments in common stocks, bonds, mortgage loans, and other miscellaneous investments. The UCRS' investments are reported at market value.

### *Actuarial Present Value of Accumulated Plan Benefits*

Actuarial methods and assumptions include the expected return on actuarial value of assets at 8.5 percent, as well as valuing actuarial assets based on five-year moving average of market values.

The actuarial present value of accumulated plan benefits of the UCRS at June 30, 1992, was \$6.91 billion, composed of vested benefits of \$6.69 billion and nonvested benefits of \$224 million. The actuarial present value excludes future salary increases, while actual future benefits will be based upon then-current salary levels. When projections for future salary increases are included in this calculation, the actuarial present value of accumulated plan benefits is \$9.47 billion. Net assets available for benefits, using the actuarial value of such assets, totaled \$14 billion at June 30, 1992.

### *Funding Policy*

The UCRS is funded through the University of California and employee contributions. The pension expense related to the UCRS was \$530,000 for fiscal year 1991-92. In 1984, the State agreed to pay \$66.5 million in actuarially equivalent annual installments over 30 years. Also, in fiscal year 1989-90, the State agreed to pay \$57.2 million in actuarially equivalent annual installments over 30 years. At June 30, 1992, the amount due from the State was \$116 million. This amount is recorded as a receivable from the State and as an interfund payable and receivable between the University of California's current unrestricted funds and retirement plan funds.

During the year, the University offered a voluntary early retirement incentive program plan to employees which added five years of service credit to the defined benefit compensation formula. For those employees who participated in PERS, a special defined benefit provision plan providing lifetime supplemental retirement income and survivor benefits was provided to those who elected early retirement under the plan. The cost of the plan is \$65 million, which is to be paid into UCRS in actuarially determined installments over a five-year period. Pension expense related to this plan for the year ended June 30, 1992, was \$42.3 million. The remaining \$22.7 million is not recorded in the accompanying statements.

## **21. Postretirement Health Care Benefits**

In addition to providing pension benefits, the State provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer. To be eligible for these benefits, first tier plan annuitants must retire from the State on or after attaining age 50 with at least 5 years of service, and second tier plan annuitants must retire from the State on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from State employment to be eligible to receive these benefits. As of June 30, 1992, approximately 82,000 annuitants were enrolled for health benefits and approximately 65,000 annuitants were

enrolled to receive dental benefits. In accordance with the Government Code, the State generally pays 100 percent of the health insurance cost for annuitants plus 90 percent of the additional premium required for the enrollment of family members of annuitants. Although the State generally pays 100 percent of the dental insurance premium for annuitants, the Government Code does not specify the State's contribution toward dental insurance costs. The State recognizes the cost of providing health and dental insurance to annuitants as an expenditure in the year the benefits are paid. The cost of these benefits in fiscal year 1991-92 was approximately \$267 million. The \$39 million increase in expenditures over the previous year was largely caused by increases in health and dental insurance premiums.

The University of California also provides health care and dental plan benefits to annuitants. For the current fiscal year, more than 25,900 annuitants were eligible to receive these benefits. The University of California recognizes the cost of providing health care and dental benefits as a current unrestricted funds expenditure when the benefits are paid. The cost of health care and dental benefits for annuitants of the University of California in fiscal year 1991-92 was \$84 million.

## **22. Deferred Compensation Plan**

The State administers two deferred compensation plans in accordance with Section 457 of the Internal Revenue Code: the 457 Plan and the Part-Time, Seasonal, and Temporary (PST) Plan. The 457 plan is an optional plan for eligible employees. The PST plan is a mandatory plan for employees who are not members of the State's retirement system and who are not covered by social security. Employees under each plan defer receiving portions of their salaries, thereby deferring taxation on these portions, until they leave state service or face a serious financial emergency. The State makes no contribution to either plan. Participants of the 457 plan direct the State to invest the deferred amounts among various investment options. The State invests PST plan participants' deferred amounts into only one of the investment options of the State's choosing. Participants of the 457 plan pay the costs of administering their plan, but the State pays the administration costs of the PST plan. However, the money in both plans is available for payment to the State's general creditors when permitted by the Legislature.

As of June 30, 1992, the total market value of assets in the deferred compensation plans was approximately \$1.720 billion. Of this amount, approximately \$1.708 billion is reported in investments, approximately \$12 million in due from other funds, and the corresponding liability of \$1.720 billion is included in deposits. The assets and the liability are reported in an agency fund.

### **23. Guaranty Deposits**

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

### **24. Segment Information—Enterprise Funds**

Selected financial information by enterprise fund activity for major segments is shown in the schedule on the following page.

**ENTERPRISE FUND ACTIVITY  
BY MAJOR SEGMENTS**  
**For the Fiscal Year Ended June 30, 1992**  
**(In Thousands)**

	<u>Housing Loan</u>	<u>Water</u>	<u>State Compensation Insurance</u>	<u>Student Loans and School Building Aid</u>	<u>Toll Facilities</u>	<u>State University</u>	<u>Leasing of Public Assets</u>	<u>Lottery</u>	<u>Other Enterprises</u>
Operating revenue .....	\$ 798,147	\$ 495,698	\$1,867,146	\$ 87,444	\$ 120,941	\$203,439	\$ 134,346	\$1,358,651	\$131,209
Operating income .....	46,036	191,711	(255,627)	72,776	81,635	72,977	126,301	451,736	(11,751)
(Loss) .....	48,571	26,656	200,360	13,856	88,897	47,879	125	464,873	14,448
Net income .....									
Property, plant, and equipment									
Additions.....	6,430	95,916	41,084	6,669	14,801	61,291	128,933	6,416	903
Deductions.....	367	178,532	5,636	3,664	0	0	765	18,468	173
Total assets.....	9,617,657	5,011,573	5,941,652	587,136	1,325,242	917,446	3,041,958	1,770,386	572,221
Bonds and other long-term liabilities.....	8,430,403	3,134,391	2,406,370	117,350	90,396	328,472	2,431,137	1,430,878	86,781
Total equity .....	782,684	1,035,255	736,460	359,148	1,228,667	517,426	156,800	0	371,120

The primary sources of enterprise fund revenues are as follows:

*Housing Loan*—Interest charged on contracts of sale of properties to California veterans and to California National Guard members, interest charged on program loans to finance the housing needs of persons and families of low and moderate income, loan origination fees, and interest earned on investments.

*Water*—Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

*State Compensation Insurance*—Premiums collected from California employers for insurance against workers' compensation claims and interest earned on investments. This information is as of and for the year ended December 31, 1991.

*Student Loans and School Building Aid*—Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities, income from the rental of portable classrooms to school districts.

*Toll Facilities*—Toll fees and interest earned on investments.

*State University*—Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

*Leasing of Public Assets*—Rental charges from the lease of public assets and interest earned on investments.

*Lottery*—Sale of lottery tickets.

*Other Enterprises*—Gasoline taxes and fees related to boating activities, canteen revenues, and processing fees charged by various other departments and authorities.

## **25. Contingencies**

### **A. Litigation**

The State is a party to numerous legal proceedings, many of which normally recur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the State before June 30, 1992, legal proceedings that were in progress at June 30, 1992, and that were settled or decided against the State as of our report date, and legal proceedings having a high probability of resulting in a decision against the State as of our report date, and for which amounts could be estimated. For governmental fund types and expendable trust funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the State is involved in certain other legal proceedings that, if decided against the State, may require the State to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the accompanying financial statements, nor can an estimate of the potential loss be made.

Following are the more significant lawsuits pending against the State:

The State is a defendant in 38 lawsuits involving the State's application of the unitary method of accounting to foreign country controlled corporations. Under the unitary method of accounting, the State taxes multinational corporations on the basis of worldwide earnings allocated as a percentage of activities within the State. In 1988, corporations were given the option of using the "water's edge" method, which allows multinational corporations to limit the base used for assessing California income tax to a firm's United States operations. The lead cases are *Barclays Bank International v. Franchise Tax Board* and *Alcan Aluminum v. Franchise Tax Board*. The United States Supreme Court agreed to review the Barclays case after the California Supreme Court ruled in the State's favor. The United States Supreme Court has deferred its decision on whether to review the Alcan case until after Barclays is resolved. The United States Supreme Court anticipates taking action on the cases in 1994. If the State does not prevail, it could be required to refund an estimated \$400 million from the General Fund and \$87 million from the Unitary Tax Fund in the Special Revenue Fund Type. In addition, in case of an adverse judgment, the State will not be able to collect previous assessments of \$360 million.

The State is also a defendant in three lawsuits involving the unitary method of accounting to domestic controlled corporations. The lead case is *Colgate Palmolive v. Franchise Tax Board*. The primary issue is whether the Franchise Tax Board can allocate income to California by taking into account the worldwide income of the domestic parent multinational and all of its worldwide unitary subsidiaries. The United

States Supreme Court has agreed to review the Colgate case and has consolidated the case with the Barclays case. An adverse decision on the legal issue and not based on facts unique to an individual case could result in an estimated \$1.3 billion refund from the General Fund and \$130 million from the Unitary Tax Fund. In addition, the State will not be able to collect previous assessments of \$2 billion.

The State is a defendant in 17 lawsuits involving the exclusion of small business stock gains from preference tax and in some cases, also from taxation. The lead cases are *Mervin Morris v. Franchise Tax Board* and *James Lennane v. Franchise Tax Board*. The majority of the remaining 15 cases have been deferred pending the outcome of the Morris and Lennane cases. Although the Franchise Tax Board prevailed before different Courts of Appeal in both cases on different issues, there are inconsistencies between the two cases on one issue. Therefore, the California Supreme Court has accepted petitions for review in both cases. In the event of an adverse outcome, the effect on the State will be dependent upon the rationale for the decision and the subsequent application by the State Board of Equalization and the courts. However, the State could be required to refund an estimated \$250 million and will not be able to collect previous assessments of \$250 million.

The State is a defendant in six tax cases relating to the State's method of determining the tax on gross insurance premiums. The potential loss to the State could amount to \$ 287 million. In a related case, the California State Supreme Court ruled in the State's favor.

The State is involved in a lawsuit seeking reimbursement for alleged state-mandated costs. In *Thomas Hayes v. Commission on State Mandates*, the state director of finance is appealing a 1984 decision by the State Board of Control. The Board of Control decided in favor of local school districts' claims for reimbursement for special education programs for handicapped students; however, funds have not been appropriated. The amount of potential liability to the State, if all potentially eligible school districts pursue timely claims, has been estimated by the Department of Finance at over \$1 billion.

In another case, the State is a defendant in *Long Beach Unified School District v. State of California*. In this case, the school district seeks reimbursement for voluntary desegregation costs incurred in the implementation of California Department of Education guidelines. The years of reimbursement are from fiscal year 1977-78 and each fiscal year thereafter to the present. The district prevailed in a superior court, and the case has been decided by a State appellate court against the State. A petition for review was denied and the superior court judgment has become final, but the court retains jurisdiction to oversee payment. The State anticipates that the unfavorable outcome will affect pending claims by other school districts, and the total loss could be in excess of \$300 million.

The State is involved in two lawsuits related to contamination at the Stringfellow toxic waste site. In one suit, the State is one of approximately 130 defendants in *Penny Newman v. J. B. Stringfellow, et al.* in which 3,800 plaintiffs are claiming damages of \$850 million arising from contamination at the Stringfellow toxic waste site. The State is a defendant because it chose the site and approved the deposit of toxic wastes. A conservative estimate of the State's potential liability is \$250 million to \$550 million. In a separate lawsuit, *United States, People of the State of California v. J. B. Stringfellow, Jr. et al.*, the State is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. However, the defendants have filed a counterclaim against the State for alleged negligent acts. Because the State is the present owner of the site, the State may be found liable. Present estimates of the cleanup range from \$200 million to \$800 million.

The State is a defendant in a coordinated action involving 3,500 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The potential liability to the State in the event of an adverse outcome of the litigation cannot be estimated at this time.

The State is a defendant in *California Teachers Association vs. Russell S. Gould* where the petitioners are challenging a recharacterization of \$1.083 billion of appropriations for fiscal year 1991-92 as emergency loans rather than Proposition 98 funds. The petitioners are seeking a declaration that all appropriated funds are Proposition 98 funds and; therefore, they must be included in the minimum funding guarantee for schools. If the State loses the case, the yearly loss due to increased expenditures for schools will be \$1.083 billion for fiscal year 1992-93; \$2.246 billion in fiscal year 1993-94, and \$3.033 billion in fiscal year 1994-95.

The State is a defendant in *Parr, et al. v. State of California* where a number of state employees filed a complaint in federal court claiming that payment of wages in registered warrants violated the Fair Labor Standards Act (FLSA) on the premise that registered warrants were not cash or cash equivalent. In December 1992, the federal court ruled that the issuance of registered warrants is a violation of the FLSA. The next phase of this trial will focus on the issue of damages and will attempt to determine whether there was a good faith belief that the issuance of the registered warrants was not a violation of the FLSA. If the State loses, the maximum amount of damages will be approximately \$350 million.

## **B. Federal Audit Exceptions**

The State receives substantial funding from the federal government in the form of grants and contracts. The State is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the State may spend these resources only for eligible purposes. If audits disclose exceptions, the State may incur a liability to the federal government.

## **C. Insurance Program**

The State has elected, with a few exceptions, to be self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. Except for the University of California, workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately \$735 million as of June 30, 1992. This liability is included in the accompanying financial statements in the General Long-Term Obligations Account Group. The University of California maintains self-insurance reserves for medical malpractice claims, workers' compensation claims, and certain other risks. Such risks are subject to various per-claim and aggregate limits, with excess liability coverage provided by an independent insurer.

## **26. Subsequent Events**

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. On June 25, 1992, the State issued \$475 million in revenue anticipation warrants that were redeemed on July 24, 1992. After the budget was passed, the State sold \$3.3 billion in interim notes on September 4, 1992, that were redeemed on October 8, 1992, when \$5.0 billion in revenue anticipation notes were issued. The State redeemed the \$5.0 billion on its maturity dates: January 13, April 26, and May 12, 1993.

To cover continuing cash flow needs, the State issued an additional \$3.0 billion of revenue anticipation notes on April 26, 1993, that were redeemed on June 24, 1993. On June 23, 1993, the State issued \$2.0 billion in revenue anticipation warrants that will mature on December 23, 1993. Finally, the State issued \$2.0 billion in revenue anticipation notes on July 28, 1993, that will mature on June 28, 1994.

From July 1, 1992, to November 15, 1993, the State issued approximately \$3.6 billion in general obligation bonds and approximately \$4.5 billion in revenue bonds. Refunding bonds, which are issued to refinance existing debt, accounted for approximately \$145 million of the general obligation bonds and approximately \$2.4 billion of the revenue bonds issued. Additionally, various authorities issued approximately \$1.4 billion in no-commitment debt revenue bonds, of which \$136 million were refunding bonds.

In the general election held November 3, 1992, voters approved the sale of \$900 million of general obligation bonds.

## **STATISTICAL SECTION**

**STATE OF CALIFORNIA**  
**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION**  
**AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1983 THROUGH 1992**  
**(In Thousands)**

	<b>1983</b>	<b>1984</b>	<b>1985</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>
General government.....	\$ 1,179,961	\$ 1,443,012	\$ 1,718,147	\$ 2,157,385	\$ 1,880,521	\$ 1,842,331	\$ 2,081,579	\$ 2,741,287	\$ 2,812,140	\$ 2,786,667
Education .....	11,937,770	13,229,285	14,991,210	16,953,147	18,242,436	18,873,313	19,660,647	22,867,811	22,350,139	25,560,756
Health and welfare .....	12,489,066	13,276,927	14,154,000	14,554,960	16,499,778	17,040,861	19,539,017	22,856,943	24,589,169	28,074,053
Resources .....	512,442	632,579	599,616	743,931	766,707	765,176	1,409,351	1,356,665	1,503,840	1,864,548
State and consumer services.....	312,526	421,453	618,035	711,237	793,572	1,123,851	1,670,385	568,910	586,709	624,889
Business and transportation.....	1,954,682	2,338,762	2,912,834	2,823,357	2,999,779	3,304,988	3,367,150	4,097,360	4,502,150	5,331,881
Correctional programs .....	733,099	845,666	1,211,818	1,264,060	1,855,042	1,846,112	1,955,060	2,350,397	2,705,465	3,000,849
Property tax relief .....	1,351,061	1,070,154	944,850	925,750	993,548	1,011,781	949,699	948,896	930,233	828,212
Capital outlay .....	571,868	155,894	294,605	698,967	636,147	686,257	676,340	635,841	942,404	795,344
Debt service .....	284,346	342,899	375,829	444,942	638,535	678,340	856,538	984,791	1,220,593	1,433,140
Total .....	<u>\$31,326,821</u>	<u>\$33,756,631</u>	<u>\$37,820,944</u>	<u>\$41,277,736</u>	<u>\$45,306,065</u>	<u>\$47,173,010</u>	<u>\$52,165,766</u>	<u>\$59,408,901</u>	<u>\$62,142,842</u>	<u>\$70,300,339</u>

Source: The general purpose financial statements of the State of California.

Note: Includes general, special revenue, and capital projects funds.

**STATE OF CALIFORNIA**  
**GENERAL REVENUES BY SOURCE**  
**AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1983 THROUGH 1992**  
**(In Thousands)**

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Taxes .....	\$20,335,164	\$23,261,462	\$26,274,712	\$27,746,989	\$30,650,517	\$31,784,962	\$36,743,408	\$38,468,384	\$38,041,098	\$41,132,063
Intergovernmental .....	7,481,043	8,982,156	8,935,870	9,500,748	9,804,735	9,532,594	11,226,909	13,533,050	15,024,782	18,078,536
Licenses and permits .....	829,918	902,430	1,224,057	1,237,717	1,275,597	1,389,586	1,440,119	1,526,473	1,726,500	2,609,734
Natural resources .....	370,253	401,727	516,017	427,120	167,422	225,340	119,456	147,251	171,628	235,983
Charges for services .....	120,668	106,251	202,392	212,560	274,388	237,164	258,984	306,318	361,562	513,306
Fees.....	322,918	640,053	422,103	588,422	627,867	784,597	907,562	1,103,325	1,300,698	1,295,422
Penalties.....	73,887	66,879	79,568	138,866	406,643	237,600	285,959	367,774	288,902	457,040
Interest .....	461,753	386,174	626,937	679,011	653,928	612,968	692,352	747,701	702,199	511,353
Other .....	419,525	98,349	149,565	208,656	429,706	225,105	281,422	532,317	583,214	538,228
Total .....	<u>\$30,415,129</u>	<u>\$34,845,481</u>	<u>\$38,431,221</u>	<u>\$40,740,089</u>	<u>\$44,290,803</u>	<u>\$45,029,916</u>	<u>\$51,956,171</u>	<u>\$56,732,593</u>	<u>\$58,200,583</u>	<u>\$65,371,665</u>

Source: The general purpose financial statements of the State of California.

Note: Includes general, special revenue, and capital projects funds.

**STATE OF CALIFORNIA**  
**PERCENTAGE OF GENERAL LONG-TERM**  
**BONDED DEBT TO PER CAPITA INCOME**  
**FOR FISCAL YEARS ENDED JUNE 30, 1983 THROUGH 1992**

<u>Year</u>	<u>General Long-Term Bonded Debt (in Thousands)</u>	<u>Per Capita Debt</u>	<u>Per Capita Income</u>	<u>Percentage of Per Capita Debt to Per Capita Income</u>
1983 .....	\$ 2,074,159	\$ 82.79	\$13,507	.61%
1984 .....	2,234,900	87.45	14,548	.60
1985 .....	2,771,642	106.31	15,562	.68
1986 .....	3,388,590	126.94	16,375	.78
1987 .....	3,366,735	123.15	17,283	.71
1988 .....	3,248,925	115.96	18,260	.64
1989 .....	4,115,450	143.59	19,258	.75
1990 .....	5,168,355	175.36	20,354	.86
1991 .....	7,735,955	254.88	20,624	1.24
1992 .....	11,311,245	365.09	20,823	1.75

Sources: State Controller's Annual Reports, California Department of Finance estimates (as revised), and the general purpose financial statements of the State of California.

**STATE OF CALIFORNIA**  
**PERCENTAGE OF ANNUAL DEBT SERVICE EXPENDITURES FOR**  
**GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES**  
**AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1983 THROUGH 1992**  
**(Amounts in Thousands)**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures*</u>	<u>Percentage of Debt Service to Total General Expenditures</u>
1983 .....	\$ 152,754	\$131,592	\$ 284,346	\$31,326,821	0.9%
1984 .....	184,259	158,640	342,899	33,756,631	1.0
1985 .....	203,258	172,571	375,829	37,820,944	1.0
1986 .....	233,052	211,890	444,942	41,277,736	1.1
1987 .....	271,855	366,680	638,535	45,306,065	1.4
1988 .....	278,610	399,730	678,340	47,173,010	1.4
1989 .....	273,475	583,063	856,538	52,165,766	1.6
1990 .....	322,095	662,696	984,791	59,408,901	1.7
1991 .....	388,400	832,193	1,220,593	62,142,842	2.0
1992 .....	522,710	910,430	1,433,140	70,300,339	2.0

Source: The general purpose financial statements of the State of California.

\*Includes general, special revenue, and capital projects funds.

**STATE OF CALIFORNIA**  
**COMPARISON OF NATIONAL WITH STATE POPULATION**  
**CALENDAR YEAR 1940 THROUGH CALENDAR YEAR 1992**

	<u>United States Population</u>	<u>Average Annual Percent Increase</u>	<u>California Population</u>	<u>Average Annual Percent Increase</u>	<u>California as a Percentage of United States</u>
1940 .....	132,457,000		6,950,000		5.2%
1950 .....	151,868,000	1.5%	10,643,000	5.3%	7.0
1960 .....	179,979,000	1.9	15,863,000	4.9	8.8
1970 .....	203,984,000	1.3	20,039,000	2.6	9.8
1980 .....	227,225,000	1.1	23,782,000	1.9	10.5
1981 .....	229,466,000	1.0	24,278,000	2.1	10.6
1982 .....	231,664,000	1.0	24,805,000	2.2	10.7
1983 .....	233,792,000	.9	25,337,000	2.1	10.8
1984 .....	235,825,000	.9	25,816,000	1.9	11.0
1985 .....	237,924,000	.9	26,403,000	2.3	11.1
1986 .....	240,133,000	.9	27,052,000	2.5	11.3
1987 .....	242,289,000	.9	27,717,000	2.5	11.4
1988 .....	244,499,000	.9	28,393,000	2.4	11.6
1989 .....	246,819,000	.9	29,142,000	2.6	11.8
1990 .....	249,415,000	1.1	29,976,000	2.9	12.0
1991 .....	252,177,000	1.1	30,646,000	2.2	12.2
1992 .....	255,020,000	1.1	31,283,000	2.1	12.3

Sources: Current Population Reports issued by the Bureau of the Census of the U.S. Department of Commerce, and California Department of Finance estimates (as revised).

**STATE OF CALIFORNIA**  
**COMPARISON OF NATIONAL WITH STATE PERSONAL INCOME**  
**CALENDAR YEAR 1980 THROUGH CALENDAR YEAR 1992**

<u>Year</u>	<u>United States</u>		<u>California</u>		<u>California as a Percentage of United States</u>
	<u>Personal Income (in millions)</u>	<u>Percent Change</u>	<u>Personal Income (in millions)</u>	<u>Percent Change</u>	
1980 .....	2,259,400		278,061		12.3
1981 .....	2,526,400	11.8%	311,908	12.2%	12.3
1982 .....	2,684,300	6.3	332,842	6.7	12.4
1983 .....	2,858,600	6.5	357,975	7.6	12.5
1984 .....	3,145,300	10.0	397,565	11.1	12.6
1985 .....	3,369,100	7.1	431,227	8.5	12.8
1986 .....	3,580,700	6.3	463,601	7.5	12.9
1987 .....	3,790,100	5.8	497,331	7.3	13.1
1988 .....	4,063,800	7.2	534,476	7.5	13.2
1989(a) .....	4,368,500	7.5	575,569	7.7	13.2
1990 .....	4,649,700	6.4	616,668	7.1	13.3
1991(b) .....	(c)		624,463	1.3	
1992(b) .....	(c)		640,798	2.6	

Sources: Bureau of Economic Analysis of the U.S. Department of Commerce (as revised) and State of California, Department of Finance (1991 and 1992).

- (a) Reflects October 1989 Earthquake
- (b) Estimate, State of California, Department of Finance
- (c) Not available

**STATE OF CALIFORNIA**  
**COMPARISON OF NATIONAL WITH STATE**  
**PER CAPITA PERSONAL INCOME**  
**CALENDAR YEAR 1980 THROUGH CALENDAR YEAR 1992**

<u>Year</u>	<u>United States</u>		<u>California</u>		<u>California as a Percentage of United States</u>
	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	
1980 .....	9,942		11,685		117.5
1981 .....	11,010	10.7%	12,844	9.9%	116.7
1982 .....	11,587	5.2	13,410	4.4	115.7
1983 .....	12,226	5.5	14,115	5.3	115.5
1984 .....	13,336	9.1	15,382	9.0	115.3
1985 .....	14,159	6.2	16,307	6.0	115.2
1986 .....	14,910	5.3	17,104	4.9	114.7
1987 .....	15,641	4.9	17,902	4.7	114.5
1988 .....	16,618	6.2	18,774	4.9	113.0
1989(a) .....	17,699	6.5	19,699	4.9	111.3
1990 .....	18,639	5.3	20,586	4.5	110.4
1991(b) .....	(c)		20,377	-1.0	
1992(b) .....	(c)		20,484	0.5	

Sources Bureau of Economic Analysis of the U.S. Department of Commerce (as revised) and State of California, Department of Finance (1991 and 1992).

- (a) Reflects October 1989 Earthquake
- (b) Estimate, State of California, Department of Finance
- (c) Not available

**STATE OF CALIFORNIA  
CIVILIAN LABOR FORCE FOR  
RESIDENT POPULATION AGE 16 AND OVER  
CALENDAR YEAR 1979 THROUGH CALENDAR YEAR 1992**

<u>Year</u>	<u>Labor Force Trends</u> (In Thousands)			<u>Unemployment Rate</u>	
	<u>Total Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>United States</u>	<u>California</u>
1979 .....	11,268	10,566	702	5.8%	6.2%
1980 .....	11,584	10,794	790	7.1	6.8
1981 .....	11,812	10,938	874	7.6	7.4
1982 .....	12,178	10,967	1,211	9.7	9.9
1983 .....	12,281	11,095	1,187	9.6	9.7
1984 .....	12,610	11,631	979	7.5	7.8
1985 .....	12,981	12,048	933	7.2	7.2
1986 .....	13,332	12,442	890	7.0	6.7
1987 .....	13,737	12,946	791	6.2	5.8
1988 .....	14,133	13,385	748	5.5	5.3
1989 .....	14,518	13,780	738	5.3	5.1
1990 .....	14,670	13,846	824	5.5	5.6
1991 .....	14,833	13,714	1,119	6.7	7.5
1992(p) .....	15,183	13,797	1,386	7.4	9.1

Source: California Employment Development Department (as revised).

(p) Preliminary

**STATE OF CALIFORNIA**  
**PERSONS EMPLOYED IN**  
**PRINCIPAL MANUFACTURING INDUSTRIES**  
**CALENDAR YEAR 1982 AND CALENDAR YEAR 1992**  
**(In Thousands)**

<u>Industry</u>	<u>1982</u>	<u>1992(p)</u>	<u>Percent Change</u>
Apparel.....	102.4	143.1	39.7%
Printing and publishing.....	124.5	157.3	26.3
Textile mill products.....	12.4	15.6	25.8
Rubber and miscellaneous plastic products.....	61.2	67.1	9.6
Lumber and wood products .....	46.3	50.2	8.4
Paper and allied products .....	37.3	40.2	7.8
Chemicals and allied products.....	65.7	70.2	6.8
Food and kindred products.....	182.5	183.6	0.6
Furniture and fixtures .....	49.0	46.6	(4.9)
Stone, clay, and glass products.....	50.4	46.1	(8.5)
Transportation equipment .....	266.3	239.5	(10.1)
Petroleum and coal products .....	31.7	28.0	(11.7)
Fabricated metal products .....	138.8	114.4	(17.6)
Primary metal products .....	47.6	32.6	(31.5)
Leather and leather products .....	10.5	5.6	(46.7)
Electric and electronic equipment .....	358.0	219.0	*
Industrial machinery.....	227.6	193.9	*
Instruments and related products.....	102.4	199.0	*
Miscellaneous .....	43.2	33.9	(21.5)
<b>Total.....</b>	<b><u>1,957.8</u></b>	<b><u>1,885.9</u></b>	<b>(3.7)</b>

Sources: California Department of Finance and California Employment Development Department.

\*1992 data not comparable with 1982 data because of industry classification changes.

(p) Preliminary

cc: Members of the Legislature  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps